



Havering

LONDON BOROUGH

PENSIONS COMMITTEE

AGENDA

7.30pm

**Tuesday,
23 November 2010**

**Havering Town Hall,
Main Road, Romford.**

Members 7: Quorum 3

COUNCILLORS:

Conservatives (4)	Residents (1)	Labour (1)	Independent Residents (1)
Eric Munday (C)	Ron Ower	Denis Breading	Jeffrey Tucker
Damian White (VC)			
Roger Ramsey			
Melvin Wallace			

Trade Union Observers

(No Voting Rights) (2)

John Giles (Unison)
TBC

**Admitted / Scheduled Bodies
Representative
(No Voting Rights) (1)**

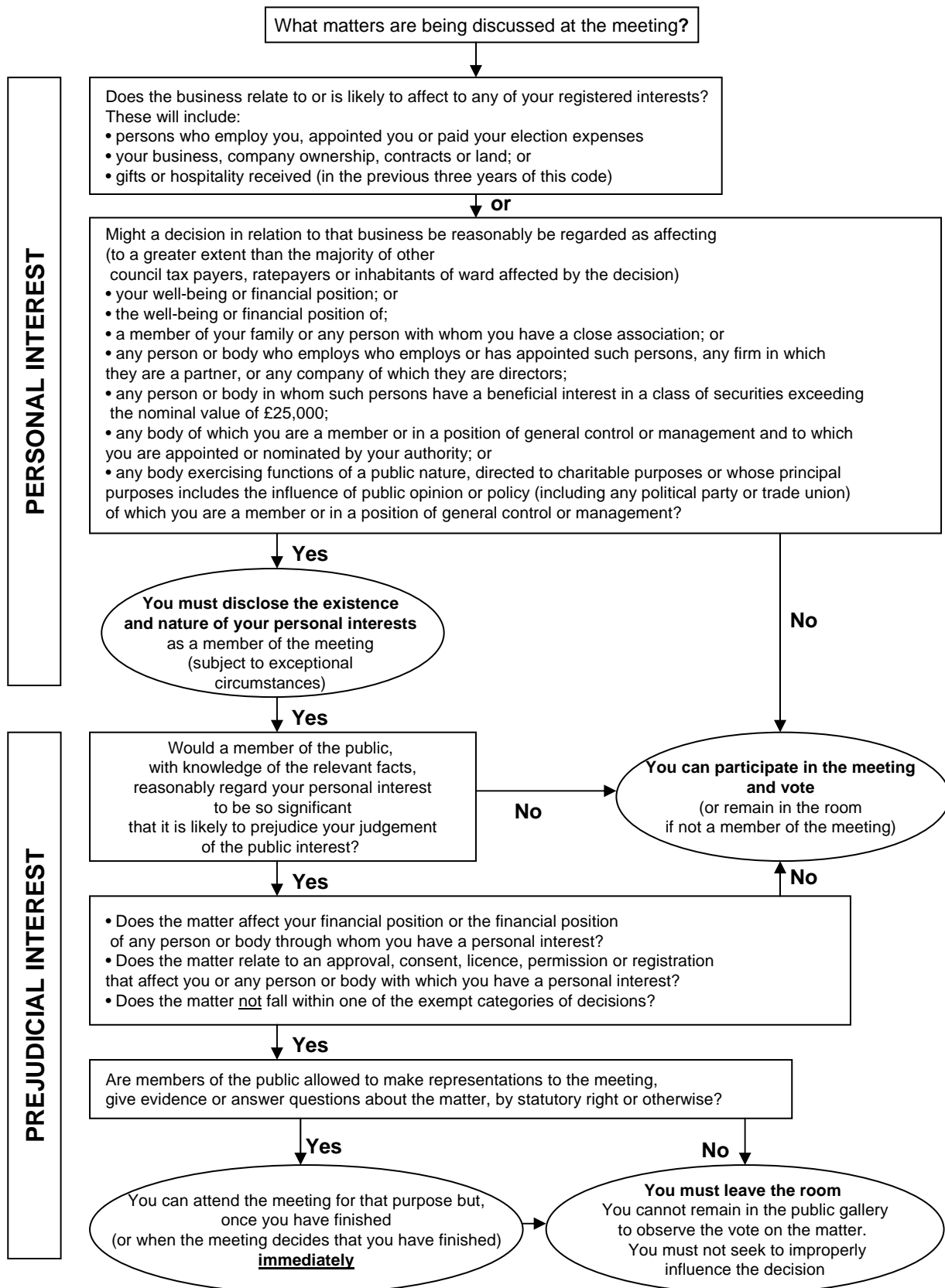
David Holmes

For information about the meeting please contact:

James Goodwin (01708) 432432

E-mail: james.goodwin@havering.gov.uk

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



AGENDA ITEMS

1. CHAIRMAN'S ANNOUNCEMENTS

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

2. APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – receive.

3. DECLARATION OF INTERESTS

Members are invited to declare any interests in any of the items on the agenda at this point of the meeting. Members may still declare an interest in any item at any time prior to the consideration of the matter.

4. MINUTES OF THE MEETING

To approve as correct the minutes of the meeting held on 21 September 2010 and authorise the Chairman to sign them.

5. REVIEW OF COMMUNICATION STRATEGY & GOVERNANCE COMPLIANCE STATEMENT – Report attached

6. WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT – Report attached

7. REVIEW OF THE PENSION FUND CUSTODIAN – Report attached

8. EXTENSION OF THE CONTRACT FOR PENSIONS ADVISORY SERVICES – Report attached

9. MEMBERSHIP STATUS OF NON TEACHING STAFF IN NON COMMUNITY SCHOOLS – Report attached

Pensions Committee, 23 November 2010

- 10. PENSION FUND ANNUAL REPORT – YEAR ENDED 31 MARCH 2010 –**
Report attached

11. URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

Philip Heady
Democratic Services Manager

**MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Havering Town Hall, Romford
21 September 2010 (7.30pm – 9.46pm)**

Present:

COUNCILLORS

Conservative Eric Munday (in the Chair), Roger Ramsey,
Melvin Wallace and Damian White

Residents Clarence Barrett*

Labour Keith Darvill**

Trade Union Observers John Giles (Unison)

Apologies for absence were received from Councillors Breading (substitute
**Councillor Darvill) and Ower (substitute * Councillor Barrett) and from David Holmes
(Admitted/Scheduled Bodies Representative).

All decisions were made with no member voting against.

The Chairman advised the Committee of action to be taken in the event of emergency
evacuation of the Town Hall becoming necessary.

Councillor Clarence Barrett declared a personal interest, which was not prejudicial, as
he is a member of the Local Government Pension Scheme, although not of the
Havering Pension Fund.

7. MINUTES

The minutes of the meeting held on 30 June 2010 were agreed as a correct record
and signed by the Chairman.

**8. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30
June 2010**

The Committee received its regular quarterly report which provided an overview of the
performance of the Havering Pension Fund investments. Officers advised the
Committee that contracts with the two new fund managers Ruffer and State Street
had been finalised and they had started trading on the fund's behalf from 8
September 2010. Ruffer had been given £11m disinvested from Royal London and
£6.5m cash. State Street had received a total of £51.1m - £33.6m disinvested from
Standard Life and £17.5m disinvested from Alliance Bernstein.

The Committee noted that no Corporate Governance issues had arisen from voting as

Pensions Committee 21 September 2010

detailed by each fund manager.

(a) Hymans Robertson (HR) Monitoring Report.

HR reported that global equity markets had experienced a significant setback over the quarter. Contributory factors included the fragile state of the global economic recovery, significant public deficits in major financial centres and tensions within the Eurozone following the emergency funding package extended to Greece.

As a result of these factors the Fund had performed poorly against the benchmark.

HR informed the Committee that Standard Life had significantly underperformed during quarter 2; as a result their performance over the last 12 months was slightly behind benchmark.

HR reported that Alliance Bernstein had seen three important personnel changes. Sharon Fay, Head of Value Equities, had been named sole Chief Investment Officer (CIO) of Equities overseeing both Growth and Value; Lisa Shalett, Head of Growth Equities was leaving to join Merrill Lynch Wealth Management as CIO; and Vadim Zlotnikov, CIO of Growth Equities and Head of Growth Portfolio Analytics, was named Chief Market Strategist.

The Committee **agreed** to consider a more detailed report regarding Alliance Bernstein in December when they were scheduled to make their presentation to the Committee.

Royal London had delivered a fifth consecutive quarter of outperformance. Relative returns were 0.5% over the quarter. Their performance was positive across all three classes of bonds. Since inception the fund manager was marginally ahead of benchmark by 0.2% (after fees).

The UBS Triton fund had experienced its first quarter of outperformance in over two years, returning 3.4% relative to the benchmark return of 3.1%. Having sold off 34 assets and achieved some successful lettings UBS had reduced their vacancy rate to 12%, just above the benchmark of 10%. This had placed them in a stronger position. The team were focussing on reducing the level of voids through intensive asset management.

(b) Standard Life

David Cumming, Executive Director, Head of UK Equities and Dale MacLennon, Investment Director, Global Client Group attended on behalf of Standard Life. They advised the Committee of the factors which had affected their performance in quarter 2. However they were pleased to inform the Committee that they had turned things round in quarter 3 and had out performed their benchmark by 2.6%. They explained their stock selection and informed the Committee of their expectations for the coming 12 months.

The Committee **noted** the report.

Pensions Committee 21 September 2010

(c) Royal London

Jonathan Platt (JP), Head of Fixed Interest and Frazer Chisholm, Customer Relations attended on behalf of Royal London Asset Management. Royal London had outperformed both their benchmark and the objective in quarter 2. The positive momentum had continued into quarter 3 and they expected to outperform both their benchmark and the objective in the quarter.

JP explained in detail the difference between corporate bonds, government bonds and index linked bonds, and the rationale behind Royal London's stock selection. He also explained why the fund was holding 7.6% of the portfolio in unrated bonds. The majority of these had been acquired before the rating agencies had become so prolific. These bonds continued to perform well. Members of the Committee felt that this presentation was very helpful.

The Committee **noted** the report.

9. PENSION FUND ACCOUNTS 2009/10

The Committee considered an extract of the Council's Statement of Accounts for the year to 31 March 2010 showing the accounts of the Havering Pension Fund as at that date.

The Committee **noted** the key items from the statement which were:

- The Net Assets of the Fund had increased to **£360m** for 2009/10 from £263m in 2008/09, a net increase of £97m. The increase in the fund value reversed the decrease reported in the previous year.
- The net increase of £97m was comprised of a change in the market value of assets of £89m and investment income of £11m, offset by management expenses of £1m and net additions of £2m.
- The overall return on the Fund's investments was 38.2%. Against the tactical benchmark this was an outperformance of 2.5% and against the strategic benchmark an outperformance of 34.2%. Main contributors of performance were attributable to stock selection in UK equities and Bonds.

The Committee had no issues which it wished to raise in respect of the accounts.

Officers referred to an issue which would arise during 2010/11 with regard to schools who achieve Voluntary Aided, Foundation/Trust or Academy status. It was explained that the accounts would need to properly reflect these in line with the Local Government Pension Scheme regulations and officers were in liaison with the

Pensions Committee 21 September 2010

Council's Actuary regarding this matter. The Committee **noted** this information and looked forward to a further more detailed report in the future.



PENSIONS COMMITTEE

23 November 2010

REPORT

Subject Heading:	REVIEW OF COMMUNICATION STRATEGY & GOVERNANCE COMPLIANCE STATEMENT
Report Author and contact details:	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: Debbie.ford@havering.gov.uk
Policy context:	Regulation 31 and 67 of the LGPS (Administration) Regulations 2008 requires an administrative authority to keep these documents under review
Financial summary:	No financial implications

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

- Clean, safe and green borough
- Excellence in education and learning
- Opportunities for all through economic, social and cultural activity
- Value and enhance the life of every individual
- High customer satisfaction and a stable council tax

SUMMARY

In line with the Local Government Pensions Scheme Regulations and good practice the London Borough of Havering as an administering authority has a duty to undertake a review the Pension Fund's Communication Strategy and Governance Compliance Statement.

This report sets out the Pension Fund's reviewed Communication Strategy and Governance Compliance Statement and highlights where changes may be required.

RECOMMENDATIONS

That the committee:

1. Consider and agree the changes to the Communications Strategy (Appendix A).
2. Consider and agree any issues as needing to be amended in the Governance Compliance Statement (Appendix B).
3. Note the administrative authority position with regard to the Administration Strategy (paragraph 5 c refers).

REPORT DETAIL

1. LGPS (Administration) Regulations 2008 Regulation 67 states that the administrative authority must keep the Policy concerning communication with members and employers under review.
2. LGPS (Administration) Regulations 2008 Regulation 31 states that the administrative authority must keep the Governance Compliance Statement under review.
3. **Communications Strategy (Appendix A)**
 - a) This sets out how the provision of information and publicity about the pension scheme is communicated to members, representatives of members and employing authorities. It also includes the format, frequency and method of distributing such information.
 - b) The current strategy had been reviewed in consultation with the Head of Internal Shared Services and the changes made to this document are reflected in the tracked changes version attached as Appendix A.
4. **Governance Compliance Statement (Appendix B)**
 - a) This sets out the administrative authorities approach towards governance of the pension fund and includes a compliance table which shows how the Pension fund is compliant against best practice standards and if it does not, state the reasons for not complying.
 - b) Guidance was issued by the Department of Communities and Local Government (CLG) in June 2008 and the Havering compliance statement based on these guidelines, was submitted to the CLG in July 08. The CLG later confirmed that the authority had fulfilled its obligation in submitting its first governance compliance statement.

c) The next steps for the CLG were to analyse all the statements and make an assessment of compliance against the best practices they laid out. They have yet to complete all their assessments but in May 2009 the CLG issued the initial results. In overall terms compliance against the principles was significantly high with many boroughs scoring 80% or higher (Individual authority results have not been published). Although the initial review highlighted substantive progress it also identified a small number of boroughs had areas of weakness in the following principles:

- Training, Facility Time and expenses (Principle E of the compliance statement refers).
- Communication and representation in instances where scheme members were not represented on the committee (Principle F, part c of the compliance statement refers).

d) In conjunction with the above the CLG also issued a consultation paper seeking views on how to bring about higher standards on governance and involvement and to see where and how future improvements can be made. This consultation closed on the 30 September 09 but no further guidance has been issued.

e) Key points for the committee to consider:

Appendix B sets out the authority's position on compliance against the set of best practice principles. Listed below are the areas where the authority is currently not fully compliant. **It should be noted that the authority does not have to be fully compliant but where it is not the authority has to state why.**

- Principle B Representation Item (a) (iii)** – To meet the required standards all stakeholders are afforded the opportunity to be represented by, where appropriate, appointing independent observers. *Members have previously considered whether or not to employ the services of an independent professional observer to participate in the governance arrangements and decided against it on the basis that the current monitoring arrangements are sufficient for the size of the fund.*
- Principle D Voting** – To meet the required standards a declaration should be included in the governance policy statement on the justification for not extending voting rights to each body or group represented on the committee. *Members previously agreed to review voting rights when the new membership arrangements are in place. Given that the representative has only been a member of the committee for a short while, members may wish to keep this under review while the role develops.*
- Other changes** – *please refer to Appendix B where track changes highlights where some wording has been changed and reflects the changes made to members of the committee.*

The compliance statement will be amended as necessary after the committee and will be published on the Council's website. The updated version will also be included in the 2009/10 Pension Fund Annual Report.

5. Administration Strategy

- a) LGPS (Administration) Regulations 2008 Regulation 65 states that an administrating authority **may** prepare a written statement of the authority's policies in relation to a Pension Administration Strategy. If an administration authority chooses to publish this strategy it must be sent to the Secretary of State.
- b) This would set out the procedures for liaison and communication with employing authorities and include setting performance levels to which the administrating authority and the employing authorities are expected to achieve in carrying out their scheme functions.
- c) The authority's currently has no plans to prepare an administration strategy. As part of the review in November 2007 the authority did consult with the other employing authorities in the fund for comments and none were received. The current communications strategy does address some of the communication requirements and the authority's current approach is to continue to keep this option under review alongside current performance arrangements.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising directly from this report. The review of the Communications and Governance documents will ensure that the London Borough of Havering as the administering authority is compliant with regulations.

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

None arise from this report.

BACKGROUND PAPERS

Background Papers List

Governance Compliance Statement (Nov 09)
Communications Strategy (Nov 09)



Havering
LONDON BOROUGH

**PENSION FUND
COMMUNICATION STRATEGY**

NOVEMBER 2010

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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 communication medium for the audiences receiving the information. This may involve using more than one method of communication

**Havering Pension Fund, Town Hall,
Main Road, Romford, RM1 3BB**

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.

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- Inserted: internet and included in the Pension Fund's Annual Report
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- Deleted: Annual Newsletter
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- Deleted: Existence Validation – Pensioners ¶
The Fund undertakes an annual exercise conducted through correspondence in order to establish the continued existence of pensioners. ¶
- Telephone Help Line¶
It is intended to provide a dedicated help line for Scheme members and this will be widely publicised in Scheme literature. ¶
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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.

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.

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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

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.

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The Fund will request formal notification of non-members from Scheme employers. The information will be used to market the Scheme to specific groups, with dedicated literature and campaigns being formulated in conjunction with Scheme employers from time to time.

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"A Guidance Manual for Approved Doctors" will be circulated to appropriate employers within the Fund. This will be supplemented by organising one to one sessions as appropriate.

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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 Commercial.

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 Briefing. 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.

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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.

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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 alternatively present their performance to the Pensions Committee or to officers including the Group Director Finance and Commerce.

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Regular Meetings take place between the Executive Director for Finance and Commerce and the Pensions Accountant. These meetings review progress being made against annual Service Plans.¶
¶
Regular Meetings take place between the Pensions Officer and Account Managers on a one-to-one basis.¶
¶

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

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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:

Pensions Section
4th Floor, Mercury House
Romford
RM4 3DS

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.

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PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

REVISED NOV 2010

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LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

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 set out in Sections 7, 12 or 24 of the Superannuation Act 1972.

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)	Ron Ower	Jeffery Tucker	Denis Breading
Damian White (Vice Chairman)			
Melvin Wallace			
Roger Ramsey			

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.

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LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

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.

Long 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 the Exchequer 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

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

- 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 notified in writing after each meeting and are informed of any major issues, and directed to the Agenda and minutes published on the Council's web-site.

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. Extracts of the annual report are reported in a booklet sent to all scheme members.

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 Secretary of State.

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
A.	<p><u>Structure</u></p> <p>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.</p>	<p>Full compliance. 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.</p> <p>Sections 2 and 3 of the Governance Compliance Statement refer.</p>
	<p>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.</p>	<p>Full compliance. 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.</p> <p>There is no secondary committee.</p> <p>Section 3 of the Governance Compliance Statement refers.</p>
	<p>c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p>	<p>No secondary committee or panel has been established.</p>
	<p>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.</p>	<p>No secondary committee or panel has been established.</p>

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

PRINCIPLE	HAVERING POSITION
<p>B <u>Representation</u></p> <p>a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis) 	<p>j) 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. 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.</p> <p>ii) Full compliance – via trade union representation</p> <p>iii) Non compliance – The Pension Committee have considered this and decided not to appoint an independent observer on the basis that the current monitoring arrangements are sufficient for the size of the fund.</p> <p>iv) Full compliance – The Fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required.</p> <p>Section 3 of the Governance Compliance Statement refers.</p>

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LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
C	<p><u>Selection and role of lay members</u></p> <p>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.</p>	<p>Full compliance. 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.</p> <p>Sections 2 and 3 of the Governance Compliance Statement refer.</p>
	<p>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.</p>	<p>Full compliance. Declarations of interest are always an agenda item at the Pension Committee meetings.</p> <p>Section 7 of the Governance Compliance Statement refers.</p>
D	<p><u>Voting</u></p> <p>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.</p>	<p>Partial compliance. The Governance Compliance Statement is clear about voting rights but currently does not include justification for not extending voting rights to each body.</p> <p>Going forward – Pension Committee members have decided to review voting rights when the new membership arrangements have developed (i.e. membership has been extended to include one representative for the Admitted/Scheduled bodies but the position was only filled in</p>

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

PRINCIPLE	HAVERING POSITION
	<p>September 2008).</p> <p>Section 3 of the Governance Compliance Statement refers.</p>
<p>E <u>Training/Facility time/Expenses</u></p> <p>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.</p> <p>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.</p> <p>c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken</p>	<p>Full compliance.</p> <p>Member's expenses and allowances are laid out in the Council's Constitution (Part 6).</p> <p><u>There is a clear policy that a training plan is developed and</u> consideration is given to prioritise training around the issues that may require decisions in the forthcoming year.</p> <p>Full compliance.</p> <p>As above.</p> <p>Full compliance.</p> <p>As above. A training plan is <u>being developed, and will be</u> agreed by members of the Pensions Committee. All committee members are offered training.</p> <p>A log is maintained and records attendance and training undertaken.</p> <p>Section 4 of the Governance Compliance Statement refers.</p>

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LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
F	<p><u>Meetings (frequency/quorum)</u> a. That an administering authority's main committee or committees meet at least quarterly</p>	<p>Full compliance. The Pension Committee meets five times a year and occasionally holds extra meetings if and when required.</p> <p>Sections 2, 3 and 6 of the Governance Compliance Statement refer.</p>
	<p>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.</p>	<p>No secondary committee or panel has been established.</p>
	<p>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.</p>	<p>Full compliance. Membership on the Pensions Committee has been extended for one representative to serve all Admitted/Scheduled bodies.</p> <p>Until this role develops further the Council will continue with existing arrangements. The current forums for which stakeholders interests can be represented are:</p> <ul style="list-style-type: none"> • Through invitation to committee meeting • Written correspondence – employers are invited for comments via letters and email as part of any consultation process, including proposed policy changes. • Views are also invited from scheme members, details of which are contained in an annual leaflet. This leaflet is distributed with the annual benefit statements and is available on the Council's website.

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

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



PENSIONS COMMITTEE

23 November 2010

REPORT

Subject Heading:	WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT
Report Author and contact details:	Andrew Blake-Herbert Group Director Finance & Commerce (01708) 432218 Andrew.blakehebert@havering.gov.uk
Policy context:	Pensions Act 2004
Financial summary:	None

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

Clean, safe and green borough	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input checked="" type="checkbox"/>
High customer satisfaction and a stable council tax	<input type="checkbox"/>

SUMMARY

1. On the 6 April 2005 the new whistleblowing requirements of the Pensions Act 2004 came into force. This extended whistleblowing obligations to nearly everyone connected with running a pension scheme, in particular administering authorities and employers. The Pensions Regulator issued a Code of Practice (CP1) that set out guidance on how to comply.
2. The basic requirement of the new law was that nearly all persons who are involved with a pension scheme have a duty to give a written report as 'soon as reasonably practicable' to the Pensions Regulator where they have 'reasonable

cause to believe' that there has been a breach of law 'relevant to the administration of the scheme' which is 'likely to be of material significance to the Regulator'. The Code discusses each of these issues, in particular what the regulator sees as materially significant.

3. For administering authorities and employers, an initial requirement was to establish procedures to identify any breaches, and then evaluate and if appropriate report to the Regulator. These were put in place during 2005 and part of this was to undertake an annual review. This represents the annual review for 2010.

RECOMMENDATIONS

Members note the results of the annual review and that no breaches have been reported.

REPORT DETAIL

1. On the 6 April 2005 the new whistleblowing requirements of the Pensions Act 2004 came into force. This extended whistleblowing obligations to nearly everyone connected with running a pension scheme, in particular trustees, administering authorities (for the Local Government Pension Scheme (LGPS)) and employers. The Pensions Regulator then issued a code of practice (CP1) that set out guidance on how to comply.

The basic requirement of the new law was that nearly all persons who are involved with a pension scheme have a duty to report 'as soon as reasonably practicable' to the Pensions Regulator where they have 'reasonable cause to believe' that there has been a breach of law 'relevant to the administration of the scheme' which is 'likely to be of material significance to the Regulator'. The code discusses each of these issues, in particular what the Regulator sees as materially significant.

For administering authorities and employers, an initial requirement was to establish procedures to identify any breaches, evaluate these breaches and, if appropriate, report them to the Regulator.

Since the requirement came into force on the 5 April 2005, no possible breaches have been reported to the Group Director of Finance and Commerce. Consequently no reports have been made to the Regulator.

2. The Code of Practice provided the following guidance:

a) There is a requirement to report breaches

- Breaches of the law which affect pension schemes should be considered for reporting to the Pensions Regulator.
- The decision whether to report requires two key judgements:
 - i. Is there reasonable cause to believe there has been a breach of the law;
 - ii. If so, is the breach likely to be of material significance to the Pensions Regulator?
- Not every breach needs to be reported.

b) The requirement to report applies to:

- Trustees of trust based schemes
- Advisers and service provider (including those carrying out tasks such as administration or fund management)
- Managers of schemes not set up under Trust (including administering authorities for the LGPS), and
- Employers sponsoring or participating in work-based pension schemes.

c) The requirement applies to occupational and personal pension schemes (including stakeholder schemes).

d) The reporting arrangements are that:

- All reporters should have effective arrangements in place to meet their duty to report breaches of the law.
- Reliance cannot be placed on waiting for others to report.
- Breaches should be reported as soon as reasonably practicable.

Failure to report when required to do so is a civil offence.

The Pensions Regulator's objectives are to protect the benefits of pension scheme members to reduce the risk of calls on the Pension Protection Fund (PPF), and to promote the good administration of work-based pension schemes.

Having via the Investment Committee (now Pensions Committee), agreed the following:

3. Actions to ensure compliance / reporting

3.1 The named officer for reporting issues to within Havering is the Group Director of Finance and Commerce. Should he be notified of a breach he will set out a plan to:

- Obtain clarification of the law where it is not clear to the reporter;
- Clarify the facts around the suspected breach where these are not known;
- Consider the material significance of the breach taking into account its cause, effect, the reaction to it, and its wider implications, including, where appropriate, dialogue with the trustees or managers;
- Establish an adequate timeframe for the procedure to take place that is appropriate to the breach and allows the full report to be made as soon as reasonably practicable;

The Group Director or a nominated person will then review and assess if a report should be made to the Pensions Regulator. This will normally be within one month of receiving all the appropriate information.

3.2 The Group Director or nominated person will maintain a system to record breaches even if they are not reported to the Pensions Regulator (the principal reason for this is that the record of past breaches may be relevant in deciding whether to report future breaches); and

3.3 In order to ensure there is a process for identifying promptly any breaches including those that are so serious they must always be reported, it was agreed that an annual assessment against the following will be carried out and reported alongside the Pension Fund accounts. This assessment has been carried out and confirms the following is acceptable.

In relation to protecting members' benefits:

- Substantially the right money is paid into the scheme at the right time;
Confirmed via audit and accounts
- Assets are appropriately safeguarded;
Confirmed via Pension Committee monitoring
- Payments out of the scheme are legitimate and timely;
Confirmed via audits and accounts
- The Fund is complying with any legal requirements on scheme funding which apply to the LGPS;
Regular actuarial reviews take place and all regulation changes implemented.

- The Administering Authority is properly considering the investment policy and investing in accordance with it;
Confirmed via work of Pensions Committee
- Contributions in respect of money purchase AVCs are correctly allocated and invested;
Confirmed via audit and accounts

In relation to promoting good administration:

- Schemes are administered properly and appropriate records maintained;
Confirmed via audit and triennial valuation
- Members receive accurate, clear and impartial information without delay.
Confirmed via Pensions Committee workplan and attendees.

3.4 In addition:

- a) A note has been included in the annual report provided to scheme members along with where to raise concerns.
- b) Monitoring reports from Managers include active confirmations they do not believe there is anything to report.
- c) Procedures are in place for staff within the Borough dealing with the pension fund (this would include Finance, Accounting, Payroll and HR staff as well as Pension Administration staff) covering what they should do if they become aware of a possible breach and also (in very broad terms) whether there are any areas of pensions law etc. they would be expected to know about in their particular role.
- d) All Fund employers have been notified of the whistleblowing requirements.
- e) There is a named officer to maintain record of all breaches, assessments and actions taken – the Group Director.
- f) Staff are reminded of the procedures

There have been no reported breaches.

3.5 Should a breach occur the named officer will write to all Pensions Committee Members setting out action taken and do a full report at the next available Committee.

IMPLICATIONS AND RISKS

Financial Implications and risks:

There are no implications arising directly as the work will be managed within existing resources by, if necessary, re-prioritising work. There are, however, possible financial penalties on non compliance, hence the need to have procedures in place.

Legal Implications and risks:

In determining whether the legal requirements of the Pensions Act have been met, a court or tribunal may take into account any relevant Codes of Practice. Section 70 of the Pensions Act introduces specific requirements for whistleblowing on the persons specified in paragraph 2(b) above where the person has reasonable cause to believe that a duty which is relevant to the administration of the scheme in question and which is imposed by law has not been or is not being complied with and the failure is likely to be of material significance to the pensions Regulator. Failure to notify can result in a penalty of £5,000 (max) being imposed on an individual and £50,000 on a corporation.

It is therefore necessary for the Council to have in place certain procedures which draw this to the attention of those persons covered by the legislation and enable any report to be considered and, where appropriate, brought before the Pensions Regulator.

Human Resources Implications and risks:

The Council has a whistleblowing/confidential reporting policy which this procedure will complement. There is a need for staff to be informed of the requirements and what they should do if they become aware of a possible breach. The actions proposed should ensure that this is the case. The principles of whistleblowing will be adhered to in relation to anonymity.

Equalities implications and risks:

There are no equalities implications to this report

BACKGROUND PAPERS

Pensions Regulator Code of Practice



PENSIONS COMMITTEE

23 November 2010

REPORT

Subject Heading:	REVIEW OF THE PENSION FUND CUSTODIAN
Report Author and contact details:	Debbie Ford Pension Fund Accountant (01708) 432569 debbie.ford@havering.gov.uk
Policy context:	Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer.
Financial summary:	Cost of custodian services was £131,944 in 2009/10.

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

- Clean, safe and green borough
- Excellence in education and learning
- Opportunities for all through economic, social and cultural activity
- Value and enhance the life of every individual
- High customer satisfaction and a stable council tax

SUMMARY

This report reviews the annual performance of the Custodian, State Street, for the period April 2009 to March 2010.

RECOMMENDATIONS

It is recommended that the Committee notes the views of officers on the performance of the Custodian and makes any comment on the report which it considers appropriate (section 3 refers).

REPORT DETAIL

1. Background

- 1.1 At its meeting of 8th September 2004, Members were informed that following a competitive tender process, State Street had been appointed via a Chairman's decision to provide an investment custodial service to the Havering Pension Fund. State Street was appointed for the period from 31st December 2004 until terminated by either party. The Council may terminate this agreement by giving at least 28 days notice. The Custodian may terminate the agreement by giving at least 90 days notice.

2. Review of the Custodian's performance

- 2.1 The Global Custodian State Street operate a wide range of functions. This falls into two main categories:

- Safe Keeping and Custody
- Investment Accounting and Reporting.

• Safe Keeping and Custody

This refers to the maintenance of accurate records and certificates of the ownership of stock and ensuring that dividend income and other distributions are received appropriately. The Custodian also manages the tax position of the fund, claiming back any recoverable overseas withholding tax paid on dividends received and maintaining the tax records of the fund.

• Investment Accounting and Reporting

State Street produce accounting reports that are similar to those the investment managers produce for the fund. They keep a record of the book costs and the holdings in the various asset classes and also provide a market valuation of the fund. This is done for each of the investment managers' portfolio as well as at the total fund level. State Street records are therefore considered to be master records and these records are used for accounting purposes. Reports are produced by State Street that meets the Statement of Recommended Practice (SORP) requirements.

- 2.2 Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer. This is the fifth formal assessment of the custodial service by this Committee.
- 2.3 At the last review officers reported that they were satisfied with the safe keeping and custody functions provided by State Street.
- 2.4 Officers also reported in the last review that they were pleased with the improvements made to the Investment Accounting and Reporting functions but officers were continuing to monitor this closely to ensure that further improvements to improve the accuracy and timeliness of data was provided. Officers can report that the timeliness and accuracy of data provided has been greatly enhanced.

The review shown below is set out in the same format as last year. The results of the review of performance are set out in the table below and have been discussed with State Street.

CRITERIA	ASSESSMENT
What is important to the Authority	<p>It is important that the Pensions Committee and officers have confidence that all assets are secure and have been properly accounted for.</p> <p>It is important that accurate accounting records are maintained and appropriate reconciliations are provided with the numerous fund managers, investment advisers and performance measurers.</p> <p><i>Officers have confidence that the assets are secure and accounted for correctly.</i></p> <p><i>Officers have confidence that accurate accounting records are maintained. State Street produces quarterly reconciliations of valuations and holdings to fund manager records. Where differences occur outside the agreed tolerance levels explanations are provided. State Street and officers also undertake quarterly reconciliations of accounts in the SORP format and this process is proving to be successful in that any errors can be identified early and can therefore assist the closedown process at year end.</i></p>
Safe keeping and custody	<p>This relates to the core functions of the custodian.</p> <p><i>Officers are appreciative of how this role is performed and believe that this is a high quality service.</i></p>

CRITERIA	ASSESSMENT
Prompt and responsive service	<p><i>Response times to invoice queries have greatly improved and the time taken by officers to recheck invoices has been reduced.</i></p> <p><i>Response time to queries on the accounts is good.</i></p>
Support arrangements	<p><i>The support arrangements in place are good.</i></p>
Good communication	<p><i>Monthly reports are produced in CD format within prescribed timetables but State Street will be looking at improving the timeliness of issuing these reports. These reports are comprehensive but the data still requires reformatting and supplementing by additional reports in order that LBH officers can produce the accounts in the format as recommended in the SORP. There have been issues with some of the data on the CD's being incomplete in the past but better checking processes introduced by State Street have resolved this issue.</i></p> <p><i>State Street has been developing automatic reports that follow the SORP format but these reports were still not available during 2009/10. It is now anticipated that these reports will be available in 2010/11. State Street have only recently produced these reports in parallel with the manual production of data and officers will be reviewing this data. State Street will also continue to provide SORP reports in the manual format until officers are confident with the new arrangements. Officers are mindful that this will improve the timeliness of releasing data but will not significantly change the way the accounts are currently produced for the accounts.</i></p>
Provision of data for the Office of National Statistics (ONS) Returns	<p><i>State Street has improved the timeliness of this data but can only deliver audited data following completion of reports at month end. ONS completion deadlines do not often coincide with State Streets' reporting timetable and this will continue as it is unlikely that the ONS will relax their completion deadlines. State Street will look at ways to improve the delivery of data without prompting.</i></p>

CRITERIA	ASSESSMENT
Overall Summary	<i>Officers are satisfied with the performance of State Street with regard to Safe Keeping and Custody functions and would like to see the improvements made for Investment Accounting and Reporting functions to be sustained.</i>

3. Conclusion

- 3.1 Officers are satisfied with the safe keeping and custody functions provided by State Street.
- 3.2 Officers are pleased with the improvements made to the investment accounting and reporting functions and State Street are currently seeking to make further improvements to improve the accuracy and timeliness of data provided. Officers will continue to monitor State Street to ensure that the level of improvement is sustained and that the implementation of the new reporting system is satisfactory.

IMPLICATIONS AND RISKS

Financial Implications and risks:

The cost of custodian services for the year to 31st March 2010 was £131,944. These costs are met from the Pension Fund. The costs cover transaction charges, administration costs and custody fees based on a pre agreed unit price applied to the value of the individual fund's assets and each transaction.

Officers are currently in discussion with State Street over the level of fees. Officers will report back to the committee on this issue.

Legal Implications and risks:

None arising directly

Human Resources Implications and risks:

None arising directly

Equalities implications and risks:

There are no equalities implications to this report

BACKGROUND PAPERS

Working papers held within Corporate Finance



**PENSIONS
COMMITTEE**

23 November 2010

REPORT

Subject Heading:	EXTENSION OF THE CONTRACT FOR PENSIONS ADVISORY SERVICES
Report Author and contact details:	Contact: Mike Board Designation: Corporate Finance Manager Telephone: (01708) 432217 E-mail address: Mike.Board@havering.gov.uk
Policy context:	The contract provides for professional advice in connection with the Pension Fund's Investment strategy and performance monitoring.
Financial summary:	The cost of the core investment advisory contract can be extended for one further year at the existing price.

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

- Clean, safe and green borough
- Excellence in education and learning
- Opportunities for all through economic, social and cultural activity
- Value and enhance the life of every individual
- High customer satisfaction and a stable council tax

SUMMARY

This report informs the Committee of the results of discussions with the Hymans Robertson LLP concerning the option to extend the existing pensions advisor contract.

RECOMMENDATION

It is recommended that the Committee: -

1. Approve a one year extension of the existing pensions advisory services contract with Hymans Robertson LLP subject to the Assistant Chief Executive Legal and Democratic Services approving the terms and conditions of the extension.
2. Approve the re-tendering of the Investment Advisor contract for a five year period commencing 1 April 2012 with an option to extend for up to two years.

REPORT DETAIL

1 Background

The existing contract was awarded to Hymans Robertson LLP in 2007 for a three year period commencing 1 April 2007 with an option to extend for an additional two years (i.e. until 31 March 2012).

The initial three year contract with Hymans Robertson was extended for one year, until 31 March 2011, as agreed by members on 3 November 2009. There is an option to extend for a further period of one year at which point it will be necessary to re-tender the service.

2 Benefits of extending the contract by a further year

a) Pricing

The contract with Hymans Robertson was the least cost option when last tendered in 2007. If the contract is extended for a further year Hymans Robertson have confirmed that the contract price for the core service will be frozen for that period. The core services are:

Trustee Training.
Preparation of Quarterly Manager monitoring reports.
Attendance of Pension Committee Meetings.
Preparation of material for officer/manager meetings.
Miscellaneous queries.

b) Service continuity

Hymans Robertson LLP have developed a good understanding of the Committee's requirements and there are significant benefits to be had from service continuity. The

annual review of Hymans performance has remained positive through the term of the contract and officers believe that there is little advantage to be had from carrying out an earlier than planned re-tendering exercise.

- c) Savings arising from the avoidance of re-tendering.

Tendering is a costly and time consuming process. The direct costs associated with re-tendering can be significant for major contracts which are subject to the **Procurement Directive 2004/18/EC for Public Contracts**. To carry out a re-tendering exercise more frequently than required under the contract terms will generate additional costs.

- d) Savings in officer time on re-tendering, project management and transition.

The re-tendering process is in itself a time consuming process. This is a particularly busy period for the Council, and officers are currently working on a range of projects including the Council's transformation agenda. Resources would need to be diverted to managing the re-tendering and transition of this project.

3. Contract re-tendering

Under the terms of the agreement the contract may be extended up to the 31 March 2012 at which point a new contract will need to have been put in place.

It is recommended that the new contract be tendered for a period of five years with an option to extend for up to two.

The extension complies with the requirements of paragraph 22 of the Council's Contract Procedure Rules in that the extension represents value for money as indicated above, is for a lesser value and period than the original contract and the possibility of an extension was included in the invitation to tender

IMPLICATIONS AND RISKS

Financial implications and risks:

The contract for the core services (based upon the original tender) can be extended for a further year at the existing price. The contract also provides for other services including investment strategy and review as well as manager selection. The cost of the advisory service during 2009/10 was £68k which includes additional charges for fund manager searches of £29k. The estimated cost of the extension is £39,000

If the contract is not extended, it will be necessary to begin a re-tendering process immediately to provide that a new contract in place by 1 April 2011.

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

None arise from this report.

BACKGROUND PAPERS

Background Papers List



PENSIONS COMMITTEE

23 November 2010

REPORT

Subject Heading:	MEMBERSHIP STATUS OF NON TEACHING STAFF IN NON COMMUNITY SCHOOLS
Report Author and contact details:	Debbie Ford Pension Fund Accountant (01708) 432569 debbie.ford@havering.gov.uk
Policy context:	Adherence to the Local Government Pension Scheme (Administration) Regulations 2008, Regulation 8
Financial summary:	No direct financial implications on the Pension fund

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

- Clean, safe and green borough
- Excellence in education and learning
- Opportunities for all through economic, social and cultural activity
- Value and enhance the life of every individual
- High customer satisfaction and a stable council tax

SUMMARY

The Committee is requested to pass a statutory resolution in order that non teaching staff employed in non community schools are designated as being eligible to become members of the Local Government Pension Scheme (LGPS), in line with LGPS regulations. This resolution will cover both staff transferring to the non community school on its transfer from local authority control as well as new employees to non community schools. Non community schools for the purposes of this report are as defined in paragraph 1.1 of this report. This report also seeks the Committee's agreement to formalise the current arrangements with regard to the continuation of LGPS membership for existing non teaching staff in the non community schools.

RECOMMENDATIONS

The Committee is recommended to:

1. Pass a statutory resolution to allow a designated class of employees employed in non community schools (at the point of transfer and new recruits), known as non-teaching staff, as being eligible for membership to the LGPS, subject to gaining consent of the employer, and
2. Agree that the employer (governing body) provide evidence of consent for its non teaching staff to become members of the LGPS in future transfers from a community or voluntary controlled school.
3. Formalise the existing arrangements by allowing continuation of membership for non teaching staff already transferred and/or employed by the non-community schools.
4. Authorise the Group Director Finance & Commerce entering into agreements with relevant schools to implement the above decisions.

REPORT DETAIL

1. Background

- 1.1 The Local Government Pension Scheme (Administration) Regulations 2008, **Regulation 8** sets out the eligibility requirements for membership of the LGPS and states that:

(1) A person may be an active member if he is an employee of the governing body of:

- a) a voluntary school;*
- b) a foundation school or foundation special school maintained by the local education authority;*
- c) any technical institute or other similar institution which is for the time being assisted by the a local education authority*
- d) a federated school*

and the local education authority has, with the consent of his employer, designated him, or a class of employees to which he belongs, as being eligible for membership of the scheme.

(2) Such a person shall be deemed to be in employment with the relevant local authority and all references in these regulations to employment by or under a Scheme employer and all similar expressions shall include references to that person.

- 1.2 A number of non-teaching employees at non community schools, as defined in paragraph 1.1 above, are already treated as continuing members of the LGPS or as eligible to join on commencement of employment. The change of status from a community school to a foundation, trust or voluntary school means that there is a change to the employing body. The new employing body at these schools are the body of governors. To allow continuation of membership in the LGPS the Council will need to designate non teaching staff as being eligible. This designation will also mean that new employees will automatically be able to join the LGPS, subject to consent of the governing body. It should be noted that the Department of Communities and Local Government and the Department of Children, Schools and Families are of the view that foundation schools and foundation special schools should not be in a position to deny access to the LGPS for their staff as a result of moving away from direct local authority control.
- 1.3 This report covers only members of the LGPS – Teaching staff would remain eligible for participation in the Teachers' Pension Scheme without the need to make any special arrangements.
- 1.4 This report is not applicable for schools that transfer to Academy status as different regulatory rules apply for these establishments within the LGPS.
- 1.5 The rules of the LGPS provide that for the purposes of the scheme all non-teaching staff of non community schools listed in paragraph 1.1 shall be deemed to be in employment with the relevant local authority. As a result there is no requirement for an assessment on the level of liabilities for the purpose of obtaining bonds; as such establishments must be treated as if they were part of the Council of all aspects of the scheme (including the setting of employer contribution rates).
- 1.6 Advice from Hymans (Pension Fund Scheme Actuaries) has been incorporated upon compilation of this report.

IMPLICATIONS AND RISKS

Financial Implications and risks:

The school governing body is the employer and as such has the full range of employer responsibilities however, given paragraph 1.5 above, non community schools are expected to continue to abide by all the councils policies and

procedures in relation to the LGPS, including those for the approval of early retirements and redundancies that result in early retirements. However early retirements are met in full by the schools' budget so there will be no financial implications for the Council or the Pension Fund by any such decisions. There is also a sum held back within the Dedicated Schools Grant (DSG) for exceptional ill health retirements so the cost of ill health retirements will be borne from a sum set aside in the ring-fenced DSG so there will be no financial implications for the Council or the Pension Fund.

Legal Implications and risks:

The Council will retain ultimate responsibility for the provision of pensions for the school staff covered by this resolution although as explained above the financial liabilities will be funded from non-council resources. It is prudent that the arrangements are formalised by agreements between the Council and the non-community schools

Human Resources Implications and risks:

If the staff at the above-listed schools could not continue to have access to the LGPS, the individual schools would have to provide a broadly comparable pension scheme, that for existing employees, could handle the accrued benefits provided under LGPS accrued. In terms of advice that would be required from the actuaries to support this change, this would be at a significant cost to the individual schools.

Access to the LGPS for support staff in schools is seen as an important benefit and as a means of providing an element of security for the staffs' future retirement. If the Council did not agree to allow these staff continued access to the LGPS, it may also have a detrimental affect on the overall relationship between these schools and the Council. It could also result in employee relations issues with existing staff who would potentially be denied the same level of benefits enjoyed to date. Such a change may also have a detrimental impact on the recruitment and retention of staff.

Should the Council agree to allow the staff at these schools to have continued access to the LGPS, each governing body of the non community and voluntary controlled schools would also be required to formally agree access for their staff under designated body status. Given the work and cost involved in establishing a broadly comparable scheme, it is perceived that there would be a very low risk that these schools would not continue to grant their staff access to the scheme.

Louise Howard, Schools' HR Manager

Equalities implications and risks:

If the resolution is not passed there is a significant risk of inequalities amongst support staff at different schools.

BACKGROUND PAPERS

Local Government Pension Scheme (Administration) Regulations 2008

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**PENSIONS
COMMITTEE**

23 November 2010

REPORT

Subject Heading:	PENSION FUND ANNUAL REPORT – YEAR ENDED 31 MARCH 2010
Report Author and contact details:	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: Debbie.ford@havering.gov.uk
Policy context:	Regulation 34 of the LGPS (Administration) Regulations 2008 requires an administrative authority to publish an annual report.
Financial summary:	Audit fees of £35,000.

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

- Clean, safe and green borough
- Excellence in education and learning
- Opportunities for all through economic, social and cultural activity
- Value and enhance the life of every individual
- High customer satisfaction and a stable council tax

SUMMARY

This report includes the Pension Fund Annual Report 2009/10 which has been prepared in accordance with Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

RECOMMENDATIONS

1. The Committee agree the 2009-2010 Pension Fund Annual Report.
2. The Committee agree the Pension Fund Annual Report will be published electronically.
3. That the Chairman and the Director of Finance and Commerce formally sign off the annual report.
4. That the Committee consider and note the Letter of Representation from. (Appendix 'B') and the external auditors' ISA 260 Report to the Pensions Committee (Appendix 'C').

REPORT DETAIL

1. The LGPS (Administration) Regulations 2008 Regulation 34 states that an administrating authority must, in relation to each year beginning on 1st April 2008 and each subsequent year prepare a document ('the pension fund annual report'). The authority must publish the pension fund report on or before 1 December following the year end. This annual report covers the period 1 April 2009 to 31 March 2010.
2. The Regulations state that the annual report must contain the following:
 - a) Management and Financial Report
 - b) Investment Policy and Performance Report
 - c) Scheme Administration Report
 - d) Actuarial Report
 - e) Governance Compliance Statement
 - f) Fund Account and Net Asset Statement (including Audit opinion)
 - g) Benchmarking Report
 - h) Funding strategy Statement
 - i) Statement of Investment Principles
 - j) Communication Strategy
 - k) Any Other Material
3. In August 2008 the Department of Communities and Local Government (CLG) issued draft guidance to assist administrating authorities with the preparation and publication of the annual report. This guidance set out in detail the suggested contents of an annual report which incorporates a large number of items for each of the above reports. Although this guidance has yet to be formally adopted by the CLG the annual report attached as Appendix A has been prepared in accordance with the regulations in paragraph 2 and with regard to the CLG guidance. Formal consultation on the guidance has not been issued by the CLG.

4. For 2009/10, the Audit Commission requires auditors to treat the LGPS fund as a separate audit engagement and will therefore require a separate audit opinion on the pension fund accounts and the annual report. The auditors opinion will be included in the annual report which must be published no later 1 December 10.
5. The CLG have stated that it can be taken that the term 'publish' is given a wider meaning in that publication can be by electronic means. Once the annual report has been signed off it will be made available on the council's website.

IMPLICATIONS AND RISKS

Financial implications and risks:

The cost of a separate audit opinion for 2009/10 is £35,000. This cost will be met from the Pension Fund.

If members agree to publish the report electronically then other than officer time there will be no publication costs.

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

None arise from this report.

BACKGROUND PAPERS

Background Papers List

2009/2010 Statement of Accounts
Statement of Investment Principles (June 10)
Funding Strategy Statement (Nov 08)
Governance Compliance Statement (Nov 10)
Communications Strategy (Nov 10)

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Haverling

L O N D O N B O R O U G H

HAVERING PENSION FUND

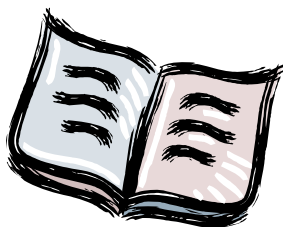
ANNUAL REPORT

MARCH 2010

Pensions Regulator
Registration Number
10027841

Financial Services
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Romford, Essex, RM1 3BB

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TRUSTEE REPORT

Message from the Chairman

Welcome to this report on the annual accounts of the Havering Pension Fund for the year ended 31st March 2010.

During the year the committee considered several reports which dealt with key issues and its members attended a number of associated training and development sessions. References to these are included on pages 20-23.

As well as highlighting the work of the Pensions Committee, an overview of the activities of the Pension Administration team is also contained in the report on pages 7-8.

In the course of the year the Committee progressed the implementation of its revised investment strategy and the structure of the fund has been changed to align it with the new benchmark. Following a competitive tender process the committee appointed two new fund managers to deal in the new categories of investment now included in the revised strategy, which takes the total number of fund managers to six.

We also appointed a new Actuary who commenced work in April 2010. His first task is to provide an updated valuation of the fund's liabilities. This is done every three years, and the outcome of this triennial valuation will determine the funding position of, and the employer's contributions to, the fund for each of the following three years, commencing 1st April 2011.

The value of the Fund as at 31st March 2010 was £360m, a significant increase on the previous year end valuation of £263m. 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 (growth of the fund expressed in percentage terms) was 38.2% (2008/09 - 25.4%), further information on the fund's investment performance can be found on page 14 of this report.

Following the unprecedented volatility in the financial markets, in the wake of the economic downturn and the consequential credit crunch there was a substantial recovery in share price, which is reflected in the valuation at year end, but the markets are still very volatile and the future is uncertain.

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 36.

Eric Munday
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.

The performance of the Fund impacts on the cost of Council services through the cost of employer contributions. However, the performance of the Pension 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 pension's 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 Retail Price Index unless retirement occurred on the grounds of Redundancy of 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 pension's 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. Performance of the four/six different managers, (who have specific mandates, are measured against an agreed benchmark.

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

The Fund also appoints a custodian who is responsible 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 Pensions Committee met 5 times during 2009/10. In addition, the Committee held special meetings to discuss the progression of the investment strategy agreed in September 2008 and to interview/select the new fund managers. More detailed information can be found in the Governance Compliance Statement section of this report.

Pensions Committee members during 2009/10:

Cllr Robby Misir (Chairman)
 Cllr Eric Munday (Vice Chairman)
 Cllr Melvin Wallace – Conservative Group
 Cllr Robert Benham – Conservative Group
 Cllr Clarence Barrett – Residents Group
 Cllr Linda van den Hende – Residents Group
 Cllr Jeffrey Tucker – Independent Local Residents Group

There were some changes made to the members in May 2010 following the Local Government elections and as at the date of this report are as follows:

Cllr Eric Munday (Chairman)
 Cllr Damien White (Vice Chairman)
 Cllr Melvin Wallace – Conservative Group
 Cllr Roger Ramsey – Conservative Group
 Cllr Ron Ower – Residents Group
 Cllr Denis Breeding – Labour Group
 Cllr Jeffrey Tucker – Independent Local Residents Group

Non voting Union Members:
 John Giles (Unison)
 Sean Ramsden (UNITE)

Non voting Admitted/Scheduled Body Representative:
 David Holmes – Havering College of Further and Higher Education

The terms of reference for the Pensions Committee are:

- To consider and agree the investment strategy and statement of investment principles for the pension fund

- To authorise the invitation of tenders and the award of contracts for actuaries, advisers and fund managers or other related investment matters (where not covered by existing delegation arrangements)
- 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 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	Hewitt Bacon & Woodrow (up to 31 March 2010) Hymans Robertson from 1 April 2010
Auditors	PricewaterhouseCoopers LLP (PwC)
Custodians	State Street Global Assets
Investment Managers	Standard Life Investments (UK Equities) Royal London Asset Management (Investment Bonds) Alliance Bernstein Institutional Investors (Global Equities) UBS (Property) HG Capital (Private Equity) Ruffer LLP (Absolute Returns) from March 2010 State Street (Passive UK/Global Equities) from March 2010
Investment Advisers	Hymans Robertson
Legal Advisers	London Borough of Havering Legal Services provide legal advice as necessary (specialist advice is procured as necessary)
Bankers	Nat West
Performance Measurement	WM Company
AVC Providers	Prudential and Standard Life
Director of Finance and	Andrew Blake Herbert (Rita Greenwood to 31 August 09)
Pension Fund Accountant	Debbie Ford
Independent Advisors	None

Employers in the Fund are as follows:

- London Borough of Havering (including schools – non teaching staff)

Scheduled bodies

- Havering College of Further Education
- Havering Sixth Form College
- Homes in Havering

Admitted Bodies

- Havering Citizens Advice Bureau
- Morrisons (formerly AWG)
- May Gurney
- Sports & Leisure Management Ltd
- KGB Cleaners

MANAGEMENT PERFORMANCE**Pension Services Local Performance Indicators 2009/10**

INDICATOR	What is it an indicator of	Actual 2009/10	Target 2009/10
The percentage of retirements processed within 5 working days	The percentage of retirement payments processed within 5 working days of the employee retiring. This indicator measures effectiveness through service delivery and is a standard throughout Local Government	92.09%	96%
The percentage of early retirement estimates processed within 10 working days	To produce estimates for early retirements i.e. ill healths, redundancies and voluntary retirements within 10 working days of request. This indicator is particularly important to service clusters	74.38%	90%
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	69.17%	50%
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	40.38%	80%
The percentage of 'Transfers Out' actuals processed within 15 working days	The percentage of transfers out paid to the new pension provider	86.49%	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	67.79%	95%
The percentage of joiners processed within 10 working days of information received	The percentage of joiners records set up on AXIS	73.86%	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.	98.33%	95%
Accurate calculation of benefit figures first time	The accuracy of first time benefit calculations at the checking stage. A quality measure to ensure customers receives correct payments at the earliest opportunity. This indicator can be directly controlled by Pension Staff	99.30%	99.70%

It is acknowledged that some of the performance levels were not achieved.

During 2009/10, the pension section lost a temporary member of the section to a neighbouring borough, as well as a part time member of the section joining the same borough for 18 hours a week. Up to the point of leaving, the part timer had been working additional hours to keep up with work loads and once she had secured part time employment with the other borough, although still

working at Havering for 18 hours a week, it meant that the facility of working additional hours was lost.

There was a further complication, in that the pension regulations were flawed around 'protections' for staff transferring previous LGPS pension membership when joining from other boroughs. Until clarification was provided by the Local Government Employers, cases were stockpiled causing a backlog.

A further backlog occurred following the change of methodology for transfers and information was awaited from the Government Actuary's Department.

Closure of the elderly homes and day centres generated higher than usual numbers of estimates and actual retirements with a reduced staffing level to cope with demand.

The Pension section moved to imaged files from hard copy files. Down time occurred as a result of the staff working on the identification of document types, training of staff, and time taken to assist with the preparation of files and other documentation prior to them being sent for scanning.

With all of the above pressures the pension section has continued to meet their Performance Indicators as closely as possible.

There are also a number of other factors that make Havering's pension fund harder to administer:

- Havering employs the largest number of part time staff in London
- The number of part time employees with multiple employments
- Teaching assistants who's contracts are ended in July only to be restarted in September
- National changes to scheme requirements around refunds of contributions, production of pre retirement estimates, including for staff who were working beyond retirement age
- An increase in the number of admitted bodies
- The introduction of the new pension scheme and other DCLG requirements

There were concerns around the work requirement to clear data to enable us to have clean data to go forward into the valuation. It is important that the data is clean to prevent a more cautious valuation and therefore potentially a slightly higher employers contribution rate. This also fits with the "spotlight" document sent out by our actuaries last year which stresses the importance of good record keeping.

An internal review of the Pensions Administration was undertaken during 2009/10 and after considering the above factors two additional posts were created.

The membership of the fund as reported on the balance sheet over the last five years is as follows:

	As at 31 March 2010	As at 31 March 2009	As at 31 March 2008	As at 31 March 2007	As at 31 March 2006
Contributors	6,157	5,723	5,803	5,664	5,613
Deferred pensioners	3,744	3,463	3,094	2,762	2,580
Pensioners and Dependants	4,951	4,746	4,587	4,468	4,391
	14,852	13,932	13,484	12,894	12,584

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

	As at 31 March 2010	As at 31 March 2009	As at 31 March 2008	As at 31 March 2007	As at 31 March 2006
Ill Health	8	14	11	12	8
Early Retirements	0	0	0	0	2

The age profile of members with five year bandings for the year ended 31 March 2010 follows:

AGE BANDS	ACTIVES	DEFERRED S	PENSIONERS (OWN RIGHT)	DEPENDANT PENSIONS	TOTAL BY AGE BAND
5-9	0	0	0	3	3
10-14	0	0	0	7	7
15-19	27	4	0	12	43
20-24	175	94	0	6	275
25-29	255	195	0	0	450
30-34	352	241	0	1	594
35-39	624	443	3	7	1,077
40-44	1,056	641	5	4	1,706
45-49	1,264	768	16	7	2,055
50-54	1,073	702	59	20	1,854
55-59	836	583	180	26	1,625
60-64	416	66	907	60	1,449
65-69	70	6	910	70	1,056
70-74	9	1	753	100	863
75-79	0	0	594	152	746
80-84	0	0	444	152	596
85-89	0	0	227	112	339
90-94	0	0	43	43	86
95-99	0	0	15	11	26
100-104	0	0	1	1	2
TOTAL	6,157	3,744	4,157	794	14,852

Contributions to the Fund

Employees who were eligible to be members of the scheme 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 determined by the Fund's actuary (Hewitt Bacon and Woodrow at the time of the 2007 valuation) to maintain the solvency of the Fund. The employers' contribution for the London Borough of Havering employees was 21.8% of salary in 2009/2010 (2008/09 21.7%). The Council's annual contribution is reviewed every three years. The latest review was based on data as at 31st March 2007 and will effect employer contribution rates for 2008/09, 2009/10 and 2010/11. The next valuation will take place during 2010 and will be based on data as at 31 March 2010.

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	5,476	5,543,878	19,193,752
Homes in Havering	178	324,956	1,057,577
Havering College of Further & Higher Education	255	314,539	769,703
Havering sixth form college	75	69,171	168,992
Citizens Advice Bureau	2	5,089	17,016
May Gurney	1	1,461	7,147
Morrisons	50	97,077	433,957
Sports & Leisure Management	119	65,677	179,608
KGB Cleaners	1	347	1,469
TOTAL	6,157	6,422,195	21,829,221

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 explain their obligation as an employer in the fund. All employers are required to purchase a bond which protects the fund against default payments.

All employee and employer contributions due to the pension fund from each of the employers were paid on time and therefore there was no requirement to make any interest charges.

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 Council's 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. A copy of the SIP can also be found in the appendices attached to this report.

Funding Strategy Statement – The fund each year 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.

The Fund appointed five active fund managers in February 2005 with specific investment mandates. 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 changes 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. Although two new fund managers were selected in 2010 to increase the equity allocation, assets have yet to be transferred and no trading activity took place during 2009/10.

The four fund managers and the market value of assets under their management at the 31st March 2010 were as follows:

Manager	Mandate	Value	
		£,000	%
Standard Life	UK Equities	122,542	35.20
Alliance Bernstein	Global Equities	99,135	28.48
Royal London	Investment Grade Bonds	107,584	30.91
UBS	Property	18,740	5.38
	Sub total	348,001	99.97
	Other	115	0.03
	Total Fund	348,116	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 Streets' 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 Fund's investment advisors attends the quarterly Pension Committee meetings and also produces 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 Pension 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 review that took place during the spring/summer of 2008 compared to asset allocation as at 31 March 2010 is as follows:

Asset Class	Revised Target Allocation as per SIP post Sep 08 %	Asset Allocation As at 31 March 2009 %	Asset Allocation As at 31 March 2010 %
UK Equities	30	27	34
Global Equities	30	25	28
Investment Grade Bonds	25	34	30
Property	10	7	5
Absolute Return (All classes)	5	0	0
Cash	0	7	3

Given that the markets had seen unprecedented volatility and markets falls during the 2008/09 some of the intended restructuring was postponed until markets improved. During 2009/10 the fund was consciously holding a significant amount of cash as a more stable investment. This was in line with the Statement of Investment Principles which gives flexibility of permitting members to deviate from the long term strategy during volatile market conditions. The overweight position in Bonds is due to the pending appointment of an Alternative Asset manager. The reduction in the bonds weighting will fund the alternatives (Absolute Return mandate).

Largest 10 Direct Asset Holdings in the Fund:

	<u>Market Value at</u>	<u>Proportion of the</u>
	<u>31 March 10</u>	<u>total investment</u>
	£m	%
BP PLC	10.7	3.09
HSBC	9.1	2.62
ACM Bernstein Value Investment	7.4	2.12
Vodafone Group	7.3	2.09
UK Index Linked Government Bond	7.2	2.07
UK Government Bond	7.1	2.06
Glaxosmithkline	6.9	1.98
Rio Tinto PLC	6.4	1.85
Xstrata PLC	5.2	1.49
Barclays PLC	3.9	1.14
Total	71.2	20.51

Largest 10 Equity Holdings in the Fund:

	<u>Market Value at</u>	<u>Proportion of the</u>
	<u>31 March 10</u>	<u>total investment</u>
	£m	%
BP PLC	10.7	3.09
HSBC	9.1	2.62
ACM Bernstein Value Investment	7.4	2.12
Vodafone Group	7.3	2.09
Glaxosmithkline	6.9	1.98
Rio Tinto PLC	6.4	1.85
Xstrata PLC	5.2	1.49
Barclays PLC	3.9	1.14
Lloyds Banking Group PLC	3.4	0.98
Vedanta Resources PLC	3.1	0.88
Total	63.4	18.24

In addition to the above holdings the Fund also invests in the UBS Triton Property Fund. This is 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 10 is £18.740m (including cash).

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:

	<u>1 year to</u> <u>31.03.09</u> %	<u>1 year to</u> <u>31.03.10</u> %	<u>3 Years to</u> <u>31.3.10</u> %	<u>5 years to</u> <u>31.3.10</u> %
Fund Return	-25.4	38.2	-1.0	4.9
Tactical Benchmark	-18.9	34.8	2.2	6.3
Performance	-8.0	2.5	-3.1	-1.2
	-25.4	38.2	-1.0	4.9
Strategic Benchmark	11.5	2.9	7.4	7.5
Performance	-33.1	34.2	-7.9	-2.4

In 2009/10, the overall return on the Fund's investments was 38.2% (2008/09 -25.4%). This represented an out performance of 2.5% against the tactical benchmark (2008/09 -8.0%) and an out performance of 34.2% against the strategic benchmark (2008/09 -33.1%).

Although Stock market values have risen over the year, which has been reflected in the performance of the fund, the markets are still very volatile.

Main contributors to performance for 2009/10 were attributable to stock selection in UK and Overseas Equities with Property being the worst detractor.

Fund Manger 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%
Alliance Bernstein	Global Equities (Active 25%)	MSCI All World Index	2.5%
Royal London Asset Management (RLAM)	Investment Grade Bonds (25%)	<ul style="list-style-type: none"> 50% iBoxx Sterling Non Gilt Over 10 Year Index. 16.7% FTSE Actuaries UK Gilt Over 15 Years Index 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-Absolute Return - (5%)	UK bank deposit rate	To outperform the benchmark (net of fees)
State Street	UK/Global Equities (15%)	Composite	To track the benchmark (gross of fees)

Please note that Ruffer and State Street had not commenced trading during 2009/10.

The following table compares each fund manger performance against their specific benchmark and their performance target for the twelve months ending 31 March 10:

	Standard Life	Alliance Bernstein	Royal London	UBS
Return (performance)	68.5	46.2	21.5	2.0
Benchmark	52.3	46.9	14.9	12.5
*Over/(Under) Performance vs. Benchmark	10.6	-0.5	6.6	-9.4
TARGET	54.3	49.4	15.6	n/a
* Over/(Under) Performance vs. Target	8.4	--2.2	5.1	n/a

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

Performance against benchmark is measured at Fund Manager level only. 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 administering authorities' finance and administration services and the associated costs are therefore reimbursed to the administering authority by the Fund. The costs for these services form part of the Administrative and Investment Management expenses as reported in the Pension Fund Statement of Accounts.

The Administration costs charged to the Fund for the year ending 31 March 2010 is £636,109.85 (includes audit and actuary fees).

The Council's pension administration section is responsible for all aspects of scheme membership including payment of benefits, processing joiners and leavers and administration of the Council's Additional Voluntary Contributions (AVC) scheme

The Pensions Administration service consists of an establishment of 7.8 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

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

Havering has continued to have a close working relationship with the London of Redbridge.

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 who are in the process of developing a website to enable pension sharing best practices across London.

Internal Dispute Resolution procedure (IDRP)

Any Internal disputes go before the Pensions Panel which comprises of Heads of services from Human Resources, Finance and Legal. The Head of Service responsible for Pensions Administration sits on the panel in an advisory role.

There have been two cases that have been through the IDRP process in 2009/10. Both cases related to decisions on ill-health for deferred pensioners. Stage 1 in both cases upheld to council's original decision.

In both cases the members progressed to stage 2. In one case a second medical opinion was sought and ill- health retirement awarded. The second case is still in progress.

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', 'Finance', 'Havering pension fund'. No breaches were reported during 2008/09.

ACTUARIAL REPORT ON FUNDS

London Borough of Havering

Statement of the Actuary for the year ended 31 March 2010

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Havering Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997.

Actuarial Position

1. Rates of contributions paid by the participating Employers during 2009/10 were based on the actuarial valuation carried out as at 31 March 2007.
2. The valuation as at 31 March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund's assets at that date (of £366.1M) covering 68% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration. The main reasons for the improvement in the funding ratio since 31 March 2004 were higher than expected investment returns on the Fund's assets and additional employer contributions paid to reduce the deficit revealed at the 2004 valuation. These had been partially offset by the impact of changes in the actuarial assumptions used, including changes to reflect higher price inflation expectations and longevity improvements.
3. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2008 was as set out below:
 - 15.8% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

Plus

- 9.0% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 25 years from 1 April 2008.

Less

- 3.4% of pensionable pay in respect of assumed additional investment returns over the period to 1 April 2011.

These figures were based on the Regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report and, in particular, allowed for the following changes to the Fund benefits since the previous valuation:

- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.
- Changes were made consistent with the Finance Act 2004.
- A new scheme had been put in place which came into effect as at 1 April 2008. All existing members transferred to the new scheme as at that date.

The cost of future benefit promises had increased compared with the costs identified in the previous valuation. This was due to the combined impact of benefit changes, changes in economic conditions and increased life expectancy.

4. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

The rates of contributions payable by each participating Employer over the period 1 April 2008 to 31 March 2011 are set out in a certificate dated 27 March 2008 which is appended to our report of the same date on the actuarial valuation.

If the assumptions are borne out in practice, the rate of contribution for each employer would increase as at 1 April 2011 due to the cessation of the allowance for assumed additional short term investment returns. It would then continue at the resultant level for the balance of the recovery period used for that employer, before reverting to the relevant long term rate. In practice contribution rates will be reviewed at the next actuarial valuation which is due to be carried out as at 31 March 2010.

5. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.

6. The main actuarial assumptions were as follows:

Discount rate for periods

Scheduled Bodies

In service Discount rate:	6.2%	a	year
Left service Discount rate:	6.2%	a	year

Admitted Bodies

In service Discount rate:	6.2%	a	year
Left service Discount rate:	5.2%	a	year

Short term investment returns until 1 April 2011

Equity/property assets	7.2%	a	year
Other investments	5.2% a year		

Rate of general pay increases 4.7% a year

Rate of increases to pensions in payment 3.2% a year

Valuation of assets market value

7. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2010. The formal actuarial valuation report and the Rates and Adjustments certificate setting out the employer contribution rates for the period from 1 April 2011 to 31 March 2014 are required by the Regulations to be signed off by 31 March 2011.

8. This statement has been prepared by Hewitt Associates Limited for inclusion in the accounts of the London Borough of Havering. It provides a summary of the results of the actuarial valuation which was carried out by Hewitt Associates Limited as at 31 March 2007. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal valuation report which details fully the context and limitations of the actuarial valuation.

Hewitt Associates Limited does not accept any responsibility or liability to any party other than our client, London Borough of Havering, in respect of this statement.

Hewitt Associates Limited

June 2010

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', 'Finance', 'Havering 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 Pension 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 Pension Fund 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.

During 2009/10 members were in their last term of office so the majority of development has already been undertaken, training during 2009/10 had been tailored to cover specific decisions required.

Members receive briefings and advice from the Funds 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.

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

Pension Committee Member Training 2009/10:

DATE	TOPIC COVERED	ATTENDED BY
23 Apr 09	Local Authority Investment Seminar provided by Standard Life	Cllr Ramsey Cllr Wallace
30 Jul 09	All members sent a copy of 'A guide to the Local Government Pension Scheme' as published by CIPFA	Cllr Wallace Cllr Misir Cllr Barrett Cllr Munday Cllr Van den Hende David Holmes John Giles (UNISON)
30 Dec 09	Alternative Asset Training by Standard Life. Delivered prior to Committee meeting	Cllr Munday Cllr Misir Cllr Barrett
27 Oct 09 30 Nov 09 16 Dec 09	Local Government Employers delivering Trustee Training: <ul style="list-style-type: none"> • Day 1 <ul style="list-style-type: none"> ○ LGPS framework (past and present) ○ Investment framework ○ Traditional Asset Classes • Day 2 <ul style="list-style-type: none"> ○ Valuations ○ Funding Strategy Statements ○ Corporate Governance ○ Communication Strategies/Policies ○ Established Alternative Investments • Day 3 <ul style="list-style-type: none"> ○ Duties and responsibilities of committee members ○ The future for LGPS ○ Manager and Manager selection ○ Bringing it all together. 	Cllr Munday
4 Nov 09	WM Roadshow (1/2 day) – The Fund's Performance measures produced overall fund performance of the WM members and asset distribution	Cllr Munday
27 Jan 10	CIPFA – Governance summit Launch of Knowledge & Skills Framework. (Not offered to all members due to limited places- invitation to chair & vice chair only. Further training to be assessed after framework has been considered.	Cllr Munday

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', 'committee agendas and minutes', 'pensions committee'.

The Committee met a number of times during 2009/10 and the coverage and attendance at those meetings are shown in the following table:

DATE	TOPIC	ATTENDED BY
MAY 2009 (Special)	<ul style="list-style-type: none"> o Investment Strategy Update including SIP amendment in light of market conditions and holding of cash balances 	Cllr Wallace (chair) Cllr Misir Cllr Benham Cllr Barrett Cllr Ramsey
JUNE 2009	<ul style="list-style-type: none"> o Pension Fund Performance Monitoring for the quarter ending 31 March 09 o United Nations Principles of Responsible Investment (UNPRI) – oral report 	Cllr Wallace (chair) Cllr Eden (sub for Cllr Misir) Cllr Thorpe (sub of Cllr Munday) Cllr Morgan (sub for Cllr Barrett) Cllr Tucker
AUGUST 2009 (Special)	<ul style="list-style-type: none"> o Pension Fund Investment Strategy – Follow up. Agreed to start the search for a Global Equities Passive Manager and a diversified Alternatives Manager o Considered a DCLG consultation paper on LGPS delivering Affordability, Viability and Fairness 	Cllr Misir (chair) Cllr Munday Cllr Benham Cllr Wallace Cllr Barrett Cllr Morgan (sub for Cllr Van den Hende) Cllr Tucker
SEPTEMBER 2009 (Special)	<ul style="list-style-type: none"> o Joint meeting with Audit Committee – approved the pension fund accounts within the statement of accounts 	Cllr Misir Cllr Munday Cllr Benham Cllr Wallace Cllr Barrett Cllr Van den Hende
SEPTEMBER 2009	<ul style="list-style-type: none"> o Pension Fund Performance Monitoring for the Quarter ending 30 June 2009 	Cllr Misir (chair) Cllr Munday Cllr Benham Cllr Barrett Brain Long (UNISON)
NOVEMBER 2009	<ul style="list-style-type: none"> o Agreed Pension Fund Annual Report – year ended 31 March 2009 o Agreed report to Pensioners and Contributors of the Pension Fund 2008- 2009 o Reviewed Pension Fund's Communication Strategy and Governance Compliance Statement o Agreed extension of the Contract for Pension Advisory Services o Whistleblowing report o Annual Review of the Statement of Investment Principles and the Funding Strategy Statement o Annual Review of the Pension Fund Custodian 	Cllr Munday (chair) Cllr Eden (sub for Cllr Misir) Cllr Benham Cllr Thompson (sub for Cllr Wallace) Cllr Barrett Cllr Van den Hende John Giles (UNISON)
DECEMBER 2009	<ul style="list-style-type: none"> o Pension Fund Performance Monitoring for the Quarter ending 30 September 09 	Cllr Misir (chair) Cllr Munday Cllr Benham Cllr Thompson (sub for Cllr Wallace) Cllr Barrett Cllr Van den Hende John Giles (UNISON)
MARCH 2010 (combined with Special meeting)	<ul style="list-style-type: none"> o Pension Fund Performance Monitoring for the Quarter ending December 09 o Annual report on the work of the Pensions Committee/business plan o Special meeting - Interview short listed Passive Global Equities Manager and Alternatives Manager 	Cllr Misir (chair) Cllr Munday Cllr Wallace Cllr Barrett David Holmes (part)

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 2009/10 and the plan of work for the following year (2010/11). This also includes a Training and Development Plan which is linked to the Pension Fund Coverage of meetings. During 2010/11 this will be expanded to incorporate CIPFA's Knowledge and Skills Framework following a training self assessment process.

Full coverage of the pensions committee work and training plan can be found on the Council's website: www.havering.gov.uk within 'Council and Democracy', 'Finance', 'Havering Pension Fund', report on the work of the pensions committee').

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 2009/10 there were no conflicts of interests declared.

FUND ACCOUNT AND NET ASSET STATEMENT

Havering Pension Fund Account for the year ended 31st March 2010

2008/09 £'000		Note	2009/10 £'000
Contributions and benefits			
26,547	Contributions receivable	3	28,251
1,189	Transfers in	4	849
27,736			29,100
(23,720)	Benefits payable	5	(26,926)
(1,347)	Leavers	6	(3,488)
(542)	Administration	7	(636)
(25,609)			(31,050)
2,127	Net additions (withdrawals) from dealings with members		(1,950)
Returns on Investments			
(1,185)	Investment management expenses	8	(1,303)
10,953	Investment income	9	11,274
(98,151)	Change in market value of investments	10	89,798
(88,383)	Net returns on investments		99,769
(86,256)	Net increase/ (decrease) in the Fund during the year		97,819
348,908	Net assets of the scheme at start of year		262,652
262,652	Net assets of the scheme at end of year		360,471

Net Asset Statement			
31 March 2009 £'000		Note	31 March 2010 £'000
262,624	Investment assets	11	360,440
0	Investment Liabilities	11	(78)
326	Current assets	12	460
(298)	Current liabilities	13	(351)
262,652	Net assets of the scheme at end of year		360,471

The financial statements summarise the transactions of the scheme and net assets of the fund. They do not take account of obligations to pay pensions and other benefits which fall due after the year end. The actuarial position of the scheme which does take account of such obligations is shown within notes 43 and 44 of the Council's main core accounts and these financial statements should be read in conjunction with them.

Notes to the Pension Fund

1. Basis of Preparation

The Financial Statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a statement from the auditor) Regulations 1996 with guidelines set out in the Statement of Recommended Practice (SORP), Financial Reports of Pension Schemes (Revised May 2007).

A proportion of relevant officer's salary costs, including related on costs, has been charged to the Fund.

2. Accounting Policies

The Financial Statements have been prepared on an accruals basis but transfer values are included on a cash basis in accordance with the SORP.

Normal contributions are recognised when they are deducted from payroll for employee contributions. Employer contributions are recognised on the same basis. Employer augmentations are recognised in accordance with the agreement under which they are paid, or in the absence of an agreement on a receipts basis.

Investments are valued at the bid price at the year end date with any surplus or deficit on valuation being debited/ credited to the Fund account.

Futures contracts are valued at the exchange price for closing out the contract at the year end date and this represents the unrealised profit or loss of the contract.

Forward foreign exchange contracts are stated at fair value which is 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.

Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and in the financial statements at rates ruling on the 31st March.

Investment income is taken into account where dividends are declared but not paid at the financial year end.

1. Contributions

	2009/10 £'000	2008/09 £'000
Employers		
Normal:		
Havering	13,239	17,393
Scheduled Bodies	1,939	1,780
Admitted Bodies	568	585
Deficit funding:		
Havering	5,305	0
Augmentation:		
Havering	650	601
Scheduled Bodies	57	52
Admitted Bodies	71	0
Employer Total	21,829	20,411
Members		
Normal:		
Havering	5,395	5,158
Scheduled bodies	690	645
Admitted bodies	167	182
Additional contributions:		
Havering	149	132
Scheduled bodies	19	16
Admitted bodies	2	3
Members Total	6,422	6,136
	28,251	26,547

Note: Some employees made additional voluntary contributions (AVC's) of £83,256 (£66,827 08/09) 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 2009/10 were £58,026 to the Prudential and £25,230 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).

2. Transfers In

	2009/10 £'000	2008/09 £'000
Individual transfers in from other schemes	849	1,189

5. Benefits

	2009/10 £'000	2008/09 £'000
Pensions		
Havering	20,426	19,134
Scheduled Bodies	269	219
Admitted Bodies	106	63
Pension Total	20,801	19,416
Commutation & Lump Sum Retirements		
Havering	4,732	3,542
Scheduled Bodies	219	240
Admitted Bodies	426	0
Commutation Total	5,377	3,782
Lump sum death benefits		
Havering	748	522
Death Benefits Total	748	522
	26,926	23,720

6. Payments To and On Account of Leavers

	2009/10 £'000	2008/09 £'000
Refunds to members leaving service	5	2
Individual transfers to other schemes	3,483	1,345
	3,488	1,347

7. Administrative expenses

	2009/10 £'000	2008/09 £'000
Administration & Processing	568	476
Actuarial Fees	14	10
Audit Fees	35	38
Other Fees	6	7
Other Expenses	13	11
	636	542

8. Investment Management Expenses

	2009/10 £'000	2008/09 £'000
Administration, Management and custody	1,224	1,089
Performance measurement services	11	11
Other Advisory Fees	68	85
	1,303	1,185

9. Investment Income

	2009/10 £'000	2008/09 £'000
Income from Fixed Interest Securities	4,873	4,275
Dividends from equities	5,157	6,145
Income from pooled vehicles	915	1,116
Cash & Deposits	53	527
Other	13	75
Other Income		
Foreign Exchange Profits/(Losses)	263	(1,186)
Total Income	11,274	10,953

10. Investments

	Value at 31 March 2009 £'000	Purchases at cost and derivative payments £'000	Sales Proceeds and derivative receipts £'000	Change in Market Value £'000	Cash Movement £'000	Value at 31 March 2010 £'000
Equities	124,337	125,699	(115,113)	69,480	0	204,403
Derivatives	108	0	(98)	(88)	0	(78)
Fixed interest Securities	57,212	120,670	(110,229)	11,162	0	78,815
Index-linked Securities	28,902	145,572	(149,630)	3,427	0	28,271
Pooled Investment Vehicles	26,423	866	(1,073)	5,675	0	31,891
Cash instruments	498	21,740	(21,788)	0	0	450
Cash deposits (fund managers)	4,052	0	0	40	188	4,280
	241,532	414,547	(397,931)	89,696	188	348,032
Cash deposits (banks)	11,300	0	0	0	(5,000)	6,300
Short term investments	7,999	0	0	0	(3,236)	4,763
	260,831	414,547	(397,931)	89,696	(8,048)	359,095
Other Investment Balances	1,793	0	0	102	(628)	1,267
	262,624	414,547	(397,931)	89,798	(8,676)	360,362

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 and due to the transfer of assets during the year.

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 Fund Managers amounted to £459,270 (2008/09 £431,117). 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. Investments

	2009/10 £'000	2008/09 £'000
Equities		
UK Quoted	127,865	72,159
Overseas	76,538	52,178
	204,403	124,337
Fixed Interest securities		
UK Public	20,512	15,112
UK Private	56,569	42,100
Overseas Public	1,568	0
Overseas Private	166	0
	78,815	57,212
Index-Linked Securities		
UK Public	26,581	26,394
UK Private	761	632
Overseas Public	672	1,823
Overseas Private	257	53
	28,271	28,902
Derivative Contracts		
Futures	6	14
Forward FX Contracts	(84)	94
	(78)	108
Pooled Investment Vehicles		
UK Managed Funds - Other		
UK Quoted	2,209	1,520
UK Unquoted	46	47
Overseas	8,877	4,651
Property	3,197	2,272
UK Unit Trust		
UK Property	17,562	17,933
	31,891	26,423
Cash Instruments		
UK	450	498
	450	498
Cash Deposits		
Managers	4,239	4,025
Futures cash commitment	41	27
	4,280	4,052
Cash Deposits		
Banks	6,300	11,300
	6,300	11,300
Short Term Investments		
L.B of Havering	4,763	7,999
	4,763	7,999

11. Investments (continued)

	2009/10 £'000	2008/09 £'000
Other Investment Balances		
Outstanding sales	1,017	2,096
Investment income	1,658	1,424
Outstanding dividend and recoverable withholding tax	899	850
Outstanding trades	(2,307)	(2,461)
Investment income	0	(116)
	1,267	1,793
Total Investments	360,362	262,624

12. Current Assets

	2009/10 £'000	2008/09 £'000
Pension grants	16	16
Contributions due from employers	345	229
Contributions due from members	85	81
Interest	14	0
Current Assets	460	326

13. Current Liabilities

	2009/10 £'000	2008/09 £'000
Unpaid benefits	(17)	(18)
Accrued expenses	(334)	(280)
Current assets	(351)	(298)

Valuation of Assets	Market Value
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14. Related Party Transactions

There were no transactions with related parties other than those disclosed elsewhere in the main set of accounts. As disclosed within note 6 of the core financial statements of the London Borough of Havering, during the year fees were paid to certain trustees for their services to the scheme. In 2009/10, £0.568m was paid to the Council for Administration (£0.475m in 2008/09) and £19.194m (£18.046m in 2008/09) was paid by the Council to the pension fund in respect of employer's contributions. During the year no Member of Council Officer with direct responsibility for Pension Fund issues has undertaken any declarable material transactions with the Pension Fund.

15. Actuarial Valuation

The fund is subject to actuarial valuation every three years. The actuary is required to specify the employers' rates of contributions to the fund to ensure that present and future commitments can be met.

The rate of the employer's contributions paid by the Council in 2009/10 was 21.8% of pensionable Pay as determined by the actuarial valuation of the Fund as at the 31st March 2007.

The most recent valuation of the Fund was carried out at the 31 March 2007. The actuary adopted a market value whereby assets were valued initially on a market value basis and liability assumptions were derived from gilt yields. Those assumptions which have the most effect on the results of the valuations are as follows:

The result of the 2007 valuation was that the value of the Fund's assets was actuarially assessed as £365.1m which was sufficient to meet 68% of its accrued liabilities of £534.6m. In order to meet 100% of future benefit liabilities, as required by Pension Fund Regulations, it has been necessary to increase the employers' contribution rates over the three years of the actuarial valuation. The actuary's recommended employer's contribution rates for the /council were as follows:

	Future Service %	Past Service %	Total % of Pensionable Pay
April 08 to March 09	15.6	6.1	21.7
April 09 to March 10	15.6	6.2	21.8
April 10 to March 11	15.7	6.4	22.0

Assumptions	Rate
Discount Rate for Period	
In Service:	
Admitted Bodies	6.2%
Scheduled Bodies	6.2%
Left Service:	
Admitted Bodies	5.2%
Scheduled Bodies	6.2%
Short term investment returns until 1 April 2011	
Equity property assets	4.7%
Other investments	3.2%
Rate of general pay increases	4.7%
Rate of increase in pension payments	3.2%

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.

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 a true and fair view of the financial position and transactions of the Authority at 31 March 2010 and its income and expenditure for the year ended 31 March 2010.

Councillor Eric Munday
Chairman, Pensions Committee
Date:

Andrew Blake-Herbert
Group Director Finance and Commerce
Date:

ADD: 2009/10 OPINION INSERTED HERE

Independent auditor's report to the Members of the London Borough of Havering

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 administrative authority produces a Funding Strategy Statement (FSS) which encompasses the aims and purposes of the fund, and the overall investment strategy. Only minor presentational changes were made to the FSS in November 2009. This will be fully reviewed as part of the 2010 triennial valuation process.

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 'Council and Democracy', 'Finance', 'Havering 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 administering 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 Myner's 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 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 'Council and democracy', 'Finance', 'Havering 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 annually.

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 'Council and democracy', 'Finance', 'Havering Pension Fund').

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
Pension Office
Mercury House, 4th Floor
Romford,
RM1 3DS

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
Town Hall, Main Road
Romford,
RM1 3BB

Telephone: 01708 432569

Email: debbie.ford@havering.gov.uk

Other useful addresses:

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

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

APPENDICES

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Haverling

LONDON BOROUGH

PENSION FUND
GOVERNANCE STATEMENT
NOVEMBER 2010

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 set out in Sections 7, 12 or 24 of the Superannuation Act 1972.

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) Damian White (Vice Chairman) Melvin Wallace Roger Ramsey	Ron Ower	Jeffery Tucker	Denis Breeding

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.

Long 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 the Exchequer 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 notified in writing after each meeting and are informed of any major issues, and directed to the Agenda and minutes published on the Council's web-site.

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. Extracts of the annual report are reported in a booklet sent to all scheme members.

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 Secretary of State.

	PRINCIPLE	HAVING POSITION
A	<p><u>Structure</u> a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p>	<p>Full compliance. 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.</p> <p>Sections 2 and 3 of the Governance Compliance Statement refer.</p>
	<p>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.</p>	<p>Full compliance. 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.</p> <p>There is no secondary committee.</p> <p>Section 3 of the Governance Compliance Statement refers.</p>
	<p>c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p>	<p>No secondary committee or panel has been established.</p>
	<p>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.</p>	<p>No secondary committee or panel has been established.</p>

PRINCIPLE	HAVING POSITION
<p>B <u>Representation</u></p> <p>a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis) 	<ul style="list-style-type: none"> 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. 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) Full compliance – via union representation iii) Non compliance – The Pension Committee have considered this and decided not to appoint an independent observer on the basis that the current monitoring arrangements are sufficient for the size of the fund. iv) Full compliance – The fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required. <p>Section 3 of the Governance Compliance Statement refers.</p>

PRINCIPLE	HAVING POSITION
<p>C <u>Selection and role of lay members</u> a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p> <p>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.</p>	<p>Full compliance. 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.</p> <p>Sections 2 and 3 of the Governance Compliance Statement refer.</p> <p>Full compliance. Declarations of interest are always an agenda item at the Pension Committee meetings.</p> <p>Section 7 of the Governance Compliance Statement refers.</p>
<p>D Voting 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.</p>	<p>Partial compliance. The Governance Compliance Statement is clear about voting rights but currently does not include justification for not extending voting rights to each body.</p> <p>Going forward – Pension Committee members have decided to review voting rights when the new membership arrangements have developed (i.e. membership has been extended to include one representative for the admitted/scheduled bodies but the position was only filled in September 2008.</p> <p>Section 3 of the Governance Compliance Statement refers.</p>

PRINCIPLE	HAVING POSITION
<p>E <u>Training/Facility time/Expenses</u></p> <p>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.</p> <p>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.</p> <p>c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken</p>	<p>Full compliance. Member's expenses and allowances are laid out in the Council's Constitution (Part 6).</p> <p>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.</p> <p>Full compliance. As above.</p> <p>Full compliance. As above. A training plan is being developed and will be agreed by members of the Pensions Committee. All committee members are offered training. A log of training is maintained and records attendance and training undertaken.</p> <p>Section 4 of the Governance Compliance Statement refers.</p>
<p>F <u>Meetings (frequency/quorum)</u></p> <p>a. That an administering authority's main committee or committees meet at least quarterly</p>	<p>Full compliance. The Pension Committee meets five times a year and occasionally holds extra meetings if and when required. Sections 2, 3 and 6 of the Governance Compliance Statement refer.</p>

PRINCIPLE	HAVING POSITION
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.	<p>Full compliance.</p> <p>Membership on the pensions committee has been extended for one representative to serve all admitted/scheduled bodies.</p> <p>Until this new role develops further the Council will continue with existing arrangements. The current forums for which stakeholders interests can be represented are:</p> <ul style="list-style-type: none"> • Through invitation to committee meeting • Written correspondence – employers are invited for comments via letters and email as part of any consultation process, including proposed policy changes. • Views are also invited from scheme members, details of which are contained in an annual leaflet. This leaflet is distributed with the annual benefit statements and is available on the council's website.
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.	<p>Full compliance.</p> <p>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.</p> <p>Section 8 of the Governance Compliance Statement refers.</p>

	PRINCIPLE	HAVING POSITION
H	<u>Scope</u>	
	a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Full compliance. The Committee already considers a wider range of pension issues. Section 7 of the Governance Compliance Statement refers.
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. Governance arrangements are published on the council's website and comments are invited from stakeholders. Section 8 of the Governance Compliance Statement refers.

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Havering
L O N D O N B O R O U G H

**HAVING 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

**Havering Pension Fund, Town Hall,
Main Road, Romford, RM1 3BB**

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 internet 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 Commercial.

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 Briefing. 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 alternatively present their performance 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.

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.

Further Information

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

Write to us at:

Pensions Section

4th Floor, Mercury House

Romford

RM4 3DS

Tel: 01708 432192/432981



Haverling

LONDON BOROUGH

FUNDING STRATEGY STATEMENT

NOVEMBER 2009

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, Hewitt Associates Limited, 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 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 smoothing adjustments at each valuation.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing 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 smoothing mechanisms is less appropriate.

2. 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.

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 Investment 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' 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.

Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible and having regard to the risks inherent in such an approach, the Administering Authority will where appropriate agree with the Fund Actuary the use of explicit smoothing adjustments in making the solvency measurement. It is unlikely that use of these smoothing adjustments will be extended to employers whose participation in the Fund is for a fixed period (for example, an employer admitted by virtue of having been awarded a best value outsourcing contract).

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 30 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.

Smoothing

The Administering Authority recognises that utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position. The Administering Authority's policy is to review the impact of this adjustment at each

valuation to ensure that it remains within acceptable limits to ensure that it does not alter the disclosed solvency level by more than 5% and will only adopt this measurement where appropriate.

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 30 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.

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 monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Actuary whether any significant changes have arisen that require action.

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Haverling

L O N D O N B O R O U G H

STATEMENT OF INVESTMENT PRINCIPLES

JUNE 10

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, 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 return 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 2007. The funding position is monitored quarterly by the Pensions Committee and formally reviewed at each triennial actuarial valuation.

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 have conducted a detailed study of the Funds' investment strategy within the last 3 years 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.

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

	Column 1	Column 2
	latest %	target %
Property	5	10
UK Equities	37	30
Global Equities	24	30
Fixed Interest Gilts	}	5
Index Linked Gilts	} 30	5
Corporate Bonds	}	15
Absolute Return	0	5

The asset allocation in column one represents the asset allocation as at March 2009 the asset allocation in column two represents the Pensions Committee target allocation and takes account of the prospective allocation to the absolute return manager appointed in March 2010.

The underlying target return of this strategy is the return on long dated Gilts plus 2.9% 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 are

	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%

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 changes to its structure to align to the new benchmark allocation. Two new fund managers were selected in March 2010 following an OJEU tender process. 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 20%)	Standard Life	FTSE All Share	+2% net of fees
Global Equities (Active 25%)	Alliance Bernstein	MSCI All Countries Index	+2.5% net of fees
UK /Global Equities (Passive 15%)	State Street	Composite	To track the benchmark (gross of fees)
Investment grade bonds (25%)	Royal London Asset Management	Composite	+0.75% net of fees
Absolute Return (5%)	Ruffer	UK bank deposit rate	To outperform the benchmark (net of fees)

The Pensions Committee were aiming to have invested in an Absolute Return mandate by the first quarter of 2009 subject to identifying the most effective way to gain such exposure and a return to less volatile market conditions; the funds earmarked for this investment are currently with Royal London Asset Management invested in Index Linked Gilts. Although the Absolute Return fund manager was selected in March 2010 at the time of writing they have not commenced trading.

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. Royal London Asset Management and Standard Life are remunerated by an ad valorem scaled fee based on the market value at quarter end of the assets under management. Alliance Bernstein is also remunerated by an ad valorem scaled fee based on quarter end closing market values of the assets under management. When the new managers (Ruffer and State Street) are appointed they will be remunerated by an ad valorem scaled fee.

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 strategic benchmark 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;
- 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 advice¹ 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).

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

- 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 2007) the funding ratio was 68%.

The Administering Authority is obliged to prepare a Funding Strategy Statement (FSS), which is published on the Council's web site at www.havering.go.uk (Within 'Council and Democracy', 'our accounts' 'Havering 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.

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 and an Asset/Liability study and 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:

Funding risks:

- 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 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.

Asset risks

- 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.

Other provider risk

- 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 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).

The regulations also specify certain limitations on investments. Principally these place a limit of 10% of the total value of the Fund on any single holding, or deposit with a single bank or institution or investments in unlisted securities.

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.

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.

Scheme members are informed of the publication and review process in the annual pension fund leaflet which is distributed with their Annual Benefit Statement.

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 (within 'Council and Democracy', 'our accounts', 'Havering 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 June 2010 and is available as an appendix to this statement.

<u>Myner's Compliance Statement</u>		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
<p>1. Effective decision-making</p> <p>Administrating authorities should ensure that :</p> <p>(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</p> <p>(b) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest</p>	<p>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.</p>	<p>SUMMARY: FULLY COMPLIANT</p> <p>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 1 - article 8).</p>
	<p>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.</p>	<p>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 meeting.</p>
	<p>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.</p>	<p>The Pensions Committee is governed by specific terms of reference and is specified in the Council's constitution (Part 1), officer functions are also specified (Part 3).</p>
	<p>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.</p>	<p>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, Council's constitution. The Statement of Investment Principles (SIP) includes the delegated functions to the Pensions Committee.</p>
	<p>5) In describing the delegation process, roles of members, officers, external advisors and managers should be differentiated and specified.</p>	<p>Roles of members, officers, external advisors and managers are specified in the SIP.</p>

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
	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.
	7) The committee should ensure that it has appropriate skills, and is run in a way designed to facilitate effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals. The adoption of a training plan and an annual update of training and development needs would represent good practice to demonstrate that the committee is actively managing the development of its members. A statement should appear in the annual report describing actions taken and progress made.	Structured training of elected members ensures that members are proficient in investment issues. The Council incorporates training within its forward looking business plan for the fund. Forward looking business plan is presented at the first Pensions Committee meeting of the financial year and reported in the Pension Fund Annual Report. Majority of members have completed a self assessment of training needs but a strengthened version of this will be issued after the May 2010 elections when any new members are known.
	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 maintain 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.

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
	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.	Having 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 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.
	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.

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
	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 - finance - Havering pension fund) and is included in the Pension Fund Annual Report. Its availability is published in the Annual report to Pensioners, Deferred Pensioners and contributors (aka pension fund leaflet).
	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.
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 : 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; membership profiles; financial position of the employers and whether or not to establish a sub fund; value for money;
	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.	
	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.	
	3) seek to include the achievement of value for money and efficiency in its objectives and all aspects of its operation	

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
	4) with the CFO need to give consideration to the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The responsibility of the actuary to keep employer contribution rates as constant as possible over time is the primary means of achieving this.	and the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The Fund's investment policies and objectives are laid out in the Funding Strategy Statement (FSS).
	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 takes the view that active management of particular assets does have potential to achieve higher returns and the mandates awarded to managers allow those managers to use appropriate levels of risk in order to achieve the required returns.
	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 administering authorities own procurement rules.	The Pensions Committee appoints external advisors in line with EU procurement rules and the administering 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 three to five 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

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
	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.
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:	

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
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. 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. 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.
	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.

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
	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 audit reports are 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.
	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.

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
	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: Officers are planning on adopting a risk register for inclusion in the 2009/10 Annual Report, publication date currently stands at before 1 December.
4. Performance assessment		SUMMARY: MAJORITY COMPLIANT
a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors	<p><u>Investments</u></p> <p>The committee should:</p>	
b) Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members	1) explicitly consider, for each asset class invested, whether active or passive management would be more appropriate; where it believes active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies; if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection.	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 start the search for a passive manager in relation to UK and overseas equities. The appointment of a passive manager was made in March 2010.
	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)

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
	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.	
	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.
	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 reviewed 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 and this is summarised to the Pensions Committee.

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
	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 as 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.
	<u>Advisors</u> 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. However these assessments are qualitative (which are subjective). ACTION: Officers are investigating the most appropriate method of undertaking quantitative reviews applicable for the fund.
	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.	

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
	<p>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.</p> <p>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</p>	
	<p>Decision-making bodies</p> <p>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;</p>	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.
	<p>17) the objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved.</p>	
	<p>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:</p>	The Business Plan sets out the expectations of the committee.

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
	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 on a regular basis. Targets such as dates for issuing agendas and minutes are strictly adhered to or reports are not presented (unless exceptional circumstances). ACTION: Officers will be reviewing the self assessment process as part of the plan to adopt the knowledge and skills framework post local elections.
	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.
5. Responsible ownership		SUMMARY: FULLY COMPLIANT
Administrating authorities should: a) adopt, or ensure their investment managers adopt, the Institutional Shareholders' committee Statement of Principles on the responsibilities of shareholders and agents	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.
b) include a statement of their policy on responsible ownership in the statement of investment principles	2) Responsible ownership should incorporate the committee's approach to long term responsible investing including its approach to consideration of environmental, social and governance issues.	The Pension Committee has considered socially responsible investments and the view has been taken that non-financial factors should not drive the investment process to the detriment of the financial return of the fund.
c) report periodically to scheme members on the discharge of such responsibilities.	3) The committee should discuss the potential for consideration of environmental, social and governance issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performances.	Over the long term, the Pensions Committee requires the investment mangers to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance.

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
	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.
	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 consider.
	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. Consideration of compliance will need to be given for future appointments of investment consultants. For existing investment consultants, where applicable they are fully compliant or work is well underway to becoming compliant.

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
	<p>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.</p> <p>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</p>	
6. Transparency and reporting		SUMMARY: FULLY COMPLIANT
Administrating authorities should:	The committee should:	
a) act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives	1) ensure that its Governance Compliance Statement is maintained regularly. It should actively challenge any non-compliance and be very clear about its reasons for this and be comfortable with the explanations given.	The Governance Compliance Statement is considered and reviewed by the Pensions Committee on an annual basis. Any non-compliance is reported and necessary actions included.
b) provide regular communication to scheme members in the form they consider most appropriate.	2) have a comprehensive view of who its stakeholders are and the nature of the interests they have in the scheme and the fund. There should be a clearly stated policy on the extent to which stakeholders will take a direct part in the committee's functions and those matters on which they will be consulted.	The Governance Compliance Statement includes a statement on the extent to which stakeholders will take a direct part in the Pensions Committee's functions. Stakeholders are consulted and notified on major strategic and legalisation matters.

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
	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 Council's website at www.havering.gov.uk , follow links for Council & democracy, committee agendas and minutes, pension fund. There is a dedicated page on the Council's website for the pension fund under the link for Finance and how the work is communicated to its stakeholders is included in the fund's communication strategy. Key information is also communicated to scheme members annually in the Report to Pensioners, Deferred Pensioners & Contributors (Pension Fund Leaflet) which is distributed with the Annual Benefit Statements.
	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 are in the process of developing a website to enable pension sharing best practices across the London boroughs. Havering is also members of the CIPFA Pensions Network and the London Pension Fund Forum which are good sources of sharing best practices.
	5) compare regularly its annual report to the regulations setting out the required content and, if the report does not fully comply with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible.	Areas of current non-compliance in the annual report against regulations is in the process of being compiled by officers and an action plan, if required, will be created.

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
	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 Finance. This page also includes the pension fund's communication policy. Where applicable reference to all these documents is made in other publications.
	With regard to the FSS and SIP they should: 7) contain delegation process and 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 valorem 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 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.
	8) With regard to the Governance Compliance Statement it must include 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 authority's delegation process and functions delegated to the Pensions Committee. It also includes the frequency of meetings, terms of reference, structure and operational procedures.
	9) Governance Compliance Statement must include 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.

Myner's Compliance Statement		
<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
	10) The fund's Communication Statement must 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 administering authority's policy on provision of information and publicity about the scheme, it also includes the format, frequency and method of distribution of such information.



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PricewaterhouseCoopers LLP
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Date:

This representation letter is provided in connection with your audit of the pension financial statements of the London Borough of Havering for the year ended 31 March 2010. The authority is responsible for preparing the financial statements for the pension fund.

Your audit is conducted for the purpose of expressing an opinion as to whether the pension fund financial statements of the authority give a true and fair view of the state of affairs of the pension fund as at 31 March 2010, of the financial transactions of the pension fund during the year ended 31 March 2010, and the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the fund year, and have been properly prepared in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009.

My responsibilities as Chief Financial Officer for preparing the financial statements are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the pension fund. I also acknowledge that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of London Borough of Havering with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation, to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief and having made the appropriate enquiries, the following representations:

Accounting records

I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you (the pension fund's auditors) are aware of that information, including that:

- All the accounting records, whether for the purposes of financial reporting or any other purpose, have been made available to you for the purposes of your audit and all the transactions undertaken by the pension fund have been properly reflected and recorded in the accounting records.
- All other records and related information which might affect the fair presentation of, or necessary disclosure in, the financial statements, including minutes of the Council, the Cabinet, the Pension Committee and relevant management meetings, have been made available to you and no such information has been withheld.

So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of the financial statements are the most appropriate to give a true and fair view for the pension fund's particular circumstances, as required by the Code of Practice on Local Authority Accounting in the United Kingdom 2009.

Related party transactions

I confirm that authority has disclosed all related party transactions relevant to the pension fund and that I am not aware of any other such matters required to be disclosed in the financial statements under the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2009.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the pension fund with third parties have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

Laws and regulations

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the pension fund conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the financial statements.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the financial statements.

The pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

Fraud

I acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud.

I have disclosed to you:

- i) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
- ii) my knowledge of fraud or suspected fraud affecting the pension fund involving:
 - members
 - management
 - employees who have significant roles in internal control, or
 - others where the fraud could have a material effect on the financial statements;
- iii) my knowledge of any allegations of fraud, or suspected fraud, affecting the pension fund's financial statements communicated by members, employees, former employees, analysts, regulators or others.

Misstatements detected during the audit

I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error.

I confirm that the financial statements are free from material misstatement, including omissions.

I confirm that the reason why the misstatements that you have brought to the attention of the Audit Committee in your management letter have not been adjusted in the financial statements is because the effect of the misstatements both individually and in aggregate is not material to the truth and fairness of the financial statements either taken as a whole or in connection with the ability properly to assess the performance and the financial position of the pension fund.

Pension fund assets and liabilities

All known assets and liabilities (other than liabilities to pay pensions and benefits after the end of the year) including contingent liabilities, as at the 31 March 2010, have been taken into account or referred to in the financial statements.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2010 have been properly valued and that valuation incorporated into the financial statements.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the authority, the market value. We are responsible for the reasonableness of

any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the financial statements have been disclosed to you.

Pension fund registered status

I confirm that the Local Government Pension Scheme is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

Bank accounts

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Subsequent events

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the financial statements or in the notes thereto.

Assets and liabilities

- The pension fund has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
- The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the fund's assets, except for those that are disclosed in the financial statements.

As per minutes documented by the Audit Committee meeting on 23 November 2010.

.....

.....

Chief Financial Officer

Date

For and on behalf of London Borough of Havering

Government and Public Sector
Year ended 31 March 2010

Havering Pension Fund

Report to the Pensions Committee

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

The 'Statement of responsibilities of auditors and of audited bodies' issued by the Audit Commission in April 2008 applies to our 2009/10 audit of Havering Council under the Code of Audit Practice for Local Government Bodies issued by the Audit Commission in July 2008. A copy of the statement is available from the Chief Executive of Havering Council. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement and the Code of Audit Practice. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

1. Introduction

This report is in respect of our audit of the financial statements of the Havering Pension Fund (the "Fund") for the year ended 31 March 2010. It is designed to provide you with feedback from the work performed and to communicate any issues which have come to our attention during the audit.

This report focuses solely on the Pension Fund audit. We are required to report formally to the Members of Havering Council under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance" in relation to our audit of Havering Council ("the Council") as a whole. This report was not prepared to comply fully with the Code of Audit Practice although it contains much of the required content; it does, however, satisfy our duties under ISA (UK & I) 260 in respect of your role as "those charged with governance". We have completed the audit of the Pension Fund accounts in line with the Code of Audit Practice and International Standards on Auditing (UK & Ireland).

Our audit work is substantially complete. The main outstanding matters are:

- final checks on the updated accounts
- approval of the Annual Report by the Pensions Committee
- approval of the letter of representation by the Pensions Committee

Subject to final clearance and any matters raised by the Committee, we anticipate issuing an unqualified audit opinion on the pension fund accounts.

We would like to record our thanks to the officers of the Council who have assisted us in completing our audit work.

2. Audit Scope and Approach

Our audit followed the strategy discussed and agreed with management at our planning meeting in May 2010. We confirm that there has been no cause for us to vary the planned scope of our work. We have included a summary of our audit approach for each of the key components together with our findings below:

Summary approach

	Overall control environment	Investments and investment return	Contributions	Benefits/ membership (including pensions, transfers and refunds)	Admin expenses	Other net asset statement balances
Management controls	✓	✓	✓	✓	✓	
Administrative controls	✓		✓	✓	✓	
Review of internal control reports		✓ (I)				
Work performed at Council payroll			✓			
Third party confirmations		✓ (I, A,C)	✓			✓ (B)
Analytical procedures		✓	✓	✓	✓	✓
Substantive testing		✓	✓	✓	✓	✓

I – investment manager, C – custodian, A – AVC provider, B – bank

Investment assets

	2010 £m	2009 £m
Investment Assets	360.4	262.6
Current Assets	0.4	0.3
Current Liabilities	(0.3)	(0.3)
Total	360.5	262.6

There was an increase in the change in market value of the Investments following a return of stability to the markets.

Focus area	Audit approach	Findings
Investments exist	<p>We understood the controls and procedures around the monitoring of investments, including reviewing committee minutes to ascertain / confirm the monitoring process, and their consideration of the impact of recent market volatility and compliance with the Statement of Investment Principles.</p> <p>We obtained independent third party confirmation of assets held from the investment managers and custodian.</p> <p>We obtained and reviewed the third party control reports (AAF/SAS 70) on investment management and custody and considered their impact for our audit.</p>	No issues noted
Investments are correctly valued	<p>We performed tests of valuation of listed investments against third party sources.</p> <p>We sought to understand the Council's control environment and how it validated the asset values provided by investment managers including those not quoted, not actively traded or where no market exists.</p>	No issues noted

Focus area	Audit approach	Findings
Investment performance data reported to the committee is consistent with the financial statements	We carried out analytical review of investment returns/income comparing these to published indices/benchmarks, accounting records and the investment report within the Annual Report and accounts for consistency.	No issues noted
Investment activities are in accordance with the Statement of Investment Principles (SIP)	We reviewed the year end holdings and consider whether they are compliant with the SIP.	No issues noted

Contributions

	2010 £m	2009 £m
Employees' normal contributions	6.3	6.0
Employee's additional contributions	0.2	0.1
Employer's normal contributions	15.7	19.8
Deficit contributions	5.3	0
Augmentation payments	0.8	0.7
Total	28.3	26.6

The most noticeable change in the disclosure of contributions is the separate disclosure of the deficit contributions this year. In the prior year, this was included in the employer's normal contributions.

Focus area	Audit approach	Findings
Employer and employee contributions are paid in accordance with the actuary and the Local Government Pension Scheme Rules.	<p>We reviewed the employer contribution rates specified by the Actuary.</p> <p>We reviewed the employee rates under LGPS.</p> <p>We reviewed the controls operated by the Council and validated that these controls are still working as expected.</p> <p>We performed detailed testing on the employer payroll. We assessed whether pensionable salary used accords with the Local Government Pension Scheme Rules.</p> <p>We considered the amounts of monthly contributions received in order to investigate any unusual fluctuations.</p>	No issues noted
Contributions are paid to the Fund on a timely basis.	We reviewed the timing of receipt of contributions by the Fund.	Refer to our comments in section 3.1

Benefits and membership

	2010 £m	2009 £m
Pensions	20.8	19.4
Commutations and lump sum retirement benefits	5.4	3.8
Death Benefits	0.7	0.5
Transfers to other schemes	3.5	1.3
Total	30.4	25.0

Focus area	Audit approach	Findings
Benefits are calculated correctly in accordance with the Local Government Pension Scheme Rules	We reviewed the controls operated by the Council and validated that these controls are still working as expected.	No issues noted
Benefits are paid at the right rate to valid beneficiaries	<p>We performed substantive tests over all material benefits categories.</p> <p>We reviewed the controls over the operation of the pension payroll system.</p> <p>We performed analytical review of pensioner pay and investigated reasons for differences between our expectation and actual.</p> <p>We considered the amounts of monthly pensions paid and investigated any unusual fluctuations.</p> <p>We reviewed the controls over the application of pension increases to the pension payroll. We checked that the increases in rates accord with those awarded.</p>	No issues noted.
Benefits are only paid to bona fide pensioners.	We reviewed the results of the existence exercise.	No issues noted
Membership statistics accurately reflect the membership of the Fund	We compared the membership statistics and movements reported in the accounts with data generated by the administration system and our knowledge of joiners, leavers, retirees etc.	No issues noted

3. Audit findings

Issue

Recommendation

3.1 Timeliness of receipt of contributions

Contributions from Admitted and Scheduled bodies were not always received by the Council by the 19th of the month following that to which it relates.

We noted that during the year £189k of contributions was received between 2 and 9 days after the 19th

We recognise that the timeliness of payment of contributions has somewhat lower significance than in many other private sector pension schemes, as the Fund does not have to comply with this aspect of Pensions legislation.

However, in line with best practice, we recommend that controls are put in place to monitor the timing of payment of contributions to the Fund, by following up with the relevant body if funds have not been received by the second week of the month following that to which it relates.

4. Accounting and other observations

Bank Account

The Pension Fund is currently operated from the Council's main bank account. There is a new requirement for each pension fund to have, by 1 April 2011, a bank account which is separate from any which the administering authority has in its capacity as a local authority. This change is being adopted because it will enable pension fund monies to be clearly ring-fenced from other monies of the local authority, and thus reflects a longstanding Audit Commission view on best practice.

The Council have already begun giving consideration to this new requirement and we recommend that the pension fund bank account is made operational before the deadline to allow for possible implementation problems.

Appendix 1: Current pensions issues

Topic	Key facts	PwC Comment
<p>Benefit calculations</p> <p>Are benefits being calculated and paid in accordance with your trust deed and rules?</p>	<p>In the last year, with other pension Funds, some operational administration issues have arisen. To aid your understanding of the detailed processes, questions to consider raising are:</p> <ul style="list-style-type: none"> • Is there an opportunity for manual intervention or the overwriting of a proforma calculation? • Does the second reviewer of the calculation have the appropriate experience? • Are more complicated calculations passed to an actuary for review? • Have members complained in the year about quotations or benefits? • Do you keep a rolling log of member complaints to identify human error and systematic issues? • Does your benefit calculation process minimise the need for manual intervention? • Is the provision of your final pensionable salary information from the employer accurate? • Are your Fund process notes clear and unambiguous? 	<p>We recommend the General Purposes Committee considers the questions we have suggested and also monitors the number and types of complaints made over the last few years. A detailed review of the benefit practices to the Local Government Pension Scheme Rules may be helpful.</p>

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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