



# Havering

LONDON BOROUGH

## PENSIONS COMMITTEE

### AGENDA

7.30pm

Tuesday,  
3 November 2009

Havering Town Hall,  
Main Road, Romford

Members 7: Quorum 3

#### **COUNCILLORS:**

##### **Conservative Group**

**(4)**

Robby Misir (Chairman)

Eric Munday (Vice Chairman)

Robert Benham

Melvin Wallace

##### **Residents' Group**

**(2)**

Clarence Barrett

Linda Van den Hende

##### **Independent**

**Residents (1)**

Jeffrey Tucker

##### **Trade Union Observers**

##### **(No Voting Rights)**

**(2)**

Brian Long (Unison)

Sean Ramsden (TGWU)

##### **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](mailto:james.goodwin@havering.gov.uk)

## NOTES ABOUT THE MEETING

### 1. HEALTH AND SAFETY

The Council is committed to protecting the health and safety of everyone who attends meetings of its Committees.

At the beginning of the meeting, there will be an announcement about what you should do if there is an emergency during its course. **For your own safety and that of others at the meeting, please comply with any instructions given to you about evacuation of the building, or any other safety related matters.**

### 2. MOBILE COMMUNICATIONS DEVICES

Although mobile phones, pagers and other such devices are an essential part of many people's lives, their use during a meeting can be disruptive and a nuisance. Everyone attending is asked therefore to ensure that any device is switched to silent operation or switched off completely.

### 3. CONDUCT AT THE MEETING

Although members of the public are welcome to attend meetings of the Committee, they have no right to speak at them. Seating for the public is, however, limited and the Council cannot guarantee that everyone who wants to be present in the meeting room can be accommodated. When it is known in advance that there is likely to be particular public interest in an item the Council will endeavour to provide an overspill room in which, by use of television links, members of the public will be able to see and hear most of the proceedings.

The Chairman of the meeting has discretion, however, to invite members of the public to ask questions or to respond to points raised by Members. Those who wish to do that may find it helpful to advise the Committee Officer before the meeting so that the Chairman is aware that someone wishes to ask a question.

**PLEASE REMEMBER THAT THE CHAIRMAN MAY REQUIRE ANYONE WHO ACTS IN A DISRUPTIVE MANNER TO LEAVE THE MEETING AND THAT THE MEETING MAY BE ADJOURNED IF NECESSARY WHILE THAT IS ARRANGED.**

If you need to leave the meeting before its end, please remember that others present have the right to listen to the proceedings without disruption. Please leave quietly and do not engage others in conversation until you have left the meeting room.

## **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 an item at any time prior to the consideration of the matter.

### **4. MINUTES OF THE MEETING**

To approve as a correct record the minutes of the joint meeting of the Audit and Pensions Committee held on 15 September and of the meeting held on 30 September 2009 and authorise the Chairman to sign them.

### **5. PENSION FUND ANNUAL REPORT –YEAR ENDED 31 MARCH 2009 - report attached**

### **6. REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES AND THE FUNDING STRATEGY STATEMENT – report attached**

### **7. PENSIONS ADMINISTRATION SERVICE –report attached**

### **8. REVIEW OF COMMUNICATION STRATEGY & GOVERNANCE COMPLIANCE STATEMENT – report attached**

### **9. EXTENSION OF THE CONTRACT FOR PENSIONS ADVISORY SERVICES – report attached**

### **10. REPORT TO PENSIONERS AND CONTRIBUTORS OF THE PENSION FUND 2008-2009 – report attached**

**11. WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT – report attached****12. 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.

**Cheryl Coppel**  
Chief Executive

**MINUTES OF A SPECIAL MEETING OF THE PENSIONS COMMITTEE  
Jointly with the Audit Committee  
Havering Town Hall, Romford  
15 September 2009 (7.00pm – 7.30pm)**

**Present:**

**COUNCILLORS**

**Conservative Group** Robby Misir, Robert Benham, Eric Munday and Melvin Wallace

**Residents' Group** Clarence Barrett and Linda Van den Hende.

An apology for absence was received from Councillor David Grantham.

The following members were also present:

Councillors Gary Adams, Michael Armstrong, Frederick Thompson. and Steve Whittaker

NB Councillors Eric Munday and Clarence Barrett are also members of the Audit Committee.

**7. CHAIRMAN OF MEETING**

With the agreement of all members present the chair at this special joint meeting was taken by Councillor Robby Misir.

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 Frederick Thompson declared a personal interest, which was not prejudicial, in the business before the special joint meeting as he was a member of the Local Government Pension Scheme.

**8. ISA260 REPORT**

PricewaterhouseCoopers (PWC) presented their draft report on the results of their audit work for 2008/9. They confirmed that there were no issues to prevent them issuing an unqualified opinion on either the accounts, the Pension Fund Accounts and the use of resources. During the audit PWC identified four significant issues

Special Pensions Committee 15 September 2009

which they wished to bring to the Committees attention:

- Accounting treatment of assets under construction;
- Accounting treatment of the impairments of enhancement works;
- Accounting treatment of the impairments to infrastructure assets: and
- Impairment of Icelandic Bank deposits.

PWC advised the Committees that CIPFA had issued an updated Local Authority Accounting Panel (LAAP) Bulletin on 8 September setting out its revised views as to the correct accounting treatment of investments with Icelandic Banks, or their UK subsidiaries. PWC indicated they were still in discussion with CIPFA on this matter and as a result had not suggested any further amendments to the accounts.

The Committees **noted** that at year end there may be some capital projects which were incomplete and need to be classified as 'fixed assets under construction'. The term could include assets which were completed but not yet operational. Such assets should not be depreciated until they are complete and brought into operational use, at which point they should be revalued. PWC had identified two projects which were incomplete at year end and following discussions with management, it had been agreed to amend the draft accounts for these assets under construction this year and account for them in accordance with the Statement of Recommended Practice (SORP) in 2009/10. .

PWC advised the Committees that of the £43.2m in capital additions in the 2008/9 draft accounts, £32.4m was impaired in the year and written out to the Income and Expenditure account. While this was allowed in the SORP the determination of whether or not the enhancement works had added value or not was being determined by the corporate finance team and not by qualified valuers. PWC had advised management of the need to get a qualified property valuer to assess whether capital expenditure had enhanced the value of a fixed asset or not.

Management had taken this on board and the Committees **noted** that the determinations of the corporate finance team had been confirmed by a qualified property valuer, therefore no adjustment had been necessary.

The Committees were advised by PWC that the local authority SORP required councils to account for infrastructure assets based on their historic costs. During the testing of additions PWC had identified a significant proportion of capital expenditure on infrastructure assets that were being capitalised and written out as impairment in the same financial year. The Authority's accounting practice was therefore not in accordance with its stated accounting policy or the requirements of the SORP, therefore a revision to the accounting policy was required.

The Committee:

1. **noted** that there were no issues arising from the audit of the Pension Fund Accounts; and
2. **noted** that a further report on the Pension Fund Annual report would be submitted to the Pensions Committee on 4<sup>th</sup> November 2009.

## **9. STATEMENT OF ACCOUNTS 2008/9 AND IFRS PROJECT PLAN UPDATE**

### **(a) Statement of Accounts 2008/9**

The Council's Statement of Accounts was required to be published, after the conclusion of the external audit of accounts, by no later than 30 September 2009. As indicated above PWC have issued an unqualified opinion on the accounts. Following the conclusion of the audit, the opportunity was taken to make some presentational changes to the statements, however, the financial results for the year ended 31 March 2009 remained unchanged from those approved by the Audit Committee on 23 June 2009.

A small number of errors had been identified by PWC. The majority of these related to amendments to Homes in Havering's audited accounts which were approved after the date of approval of the Council's Group Accounts. These items had not been amended on the grounds of immateriality. The errors do not impact upon the level of useable reserves or balances.

### **(b) IFRS Implementation**

In 2007, the Government announced that the Statement of Accounts of all Government Departments and Local Government would in future be prepared in accordance with International Financial Reporting Standards. Central Government departments will prepare accounts on an IFRS basis for the first time in 2009/10. Local Authorities will follow in 2010/11.

Although the Council will not be required to publish IFRS based accounts until 2010/11 it would be necessary to produce information at a much earlier stage in order to comply with the Central Government timetable. In particular the Council will need to:

- a) Restate its closing Balance Sheet at 31 March 2009 on an IFRS basis;
- b) Restate its 2009/10 accounts on an IFRS basis for comparative purposes and to complete the Whole of Government Accounts (WGA) return by 30 September 2010.
- c) Agree accounting policies and implement system changes prior to the commencement of the financial year 2010/11.

CIPFA were in the process of developing an IFRS based code of practice. The draft code had been released for consultation. Finance staff had received training via CIPFA's finance advisory network and this training programme would continue throughout the implementation phase and provided invaluable support for the IFRS project plan.

Officers had identified a number of key areas where a significant level of preparation was required. These areas and the progress made to date are reported below;

(a) Asset valuation and reporting

All asset valuations carried out on or after 1st April 2010 would need to be made in accordance with IFRS. The new standards required the separate valuation of land, buildings and major components. Asset valuations might continue to be carried out on a five year rolling cycle but it would be necessary to carry out an annual review to ensure that the value of assets was not materially over or understated. These additional valuation requirements were expected to have cost implications.

(b) Identification and treatment of leases

The accounting treatment and disclosure of leases might change under IFRS. Arrangements were underway to identify and review all existing leases. It would also be necessary to review service contracts to determine whether they contained any embedded leases.

One consequence of lease reclassification might be to switch the expected funding stream from revenue to capital. The resulting funding problem could be avoided by making an appropriate revision to the Minimum Revenue Provision policy or by adjusting revenue contributions to capital.

(c) Private Finance Initiatives (PFI) and other off-balance sheet financing

The Council had entered into a Public Private Partnership (PPP) in 2003 lasting fifteen years. The disclosure requirements for such arrangements had altered significantly and officers were in the process of gathering sufficient information to comply with the requirements. No other existing arrangements had been identified at this stage which would be affected.

(d) Accrual of employee benefits (e.g. leave carried forward at year end)

Under IFRS the Council would have to accrue for employee benefits not taken but paid for at the year end. The affect would be to increase expenditure in 2010/11. The Government had indicated that it proposed to issue regulations to reverse the impact of this accounting adjustment so that it had no impact upon the level of Council Tax.

Officers were proposing to collect sample data from which the calculation would be made. Work would need to commence during 2008/09 in order to prepare effectively for full IFRS implementation.

The Committee **noted** that:

- a) there were no material alterations to the Pension Fund Accounts arising from the audit of accounts; and
- b) the audited accounts, including the Pension Fund Accounts, must be published by 30 September 2009.

1.



**MINUTES OF A MEETING OF THE PENSIONS COMMITTEE  
Havering Town Hall, Romford**

**30 September 2009 (7.30pm – 9.33pm)**

**Present:**

**COUNCILLORS**

**Conservative Group** Robby Misir (in the Chair), Robert Benham and Eric Munday

**Residents' Group** Clarence Barrett

Brian Long representing UNISON was also in attendance

Apologies for absence were received from Councillors Jeffrey Tucker, Linda Van den Hende and Melvin Wallace and David Holmes.

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

There were no declarations of interest.

**10. MINUTES**

The minutes of the Committee meeting held on 30 June 2009 were agreed as a correct record, and signed by the Chairman.

**(In accordance with item 6 the Chairman agreed that the following item should be considered as a matter of urgency as the contract is to be commenced on 19 October 2009 and the contract cannot be finalised until a decision is taken whether or not to admit Tulip to the Havering Pension Fund.)**

**11. THE ADMISSION OF TULIP TO HAVERING'S PENSION FUND**

Tulip succeeded in winning the contract to provide the Harold Centre Project. The Harold Centre Project is a day service for people with severe and enduring mental health problems. The contract is for 3 years and is due to commence on 19 October 2009 replacing the current arrangements which are provided by the Mental Health Provider Team.

When the Day Care service transfers to Tulip, the contracts of employment of a

number of employees will transfer from the London Borough Havering to Tulip. The Transfer of Undertakings (Protection of Employment) Regulations ("TUPE") applies to the employment terms and conditions of the relevant employees except for pension rights. One of the employees concerned is a member of the Local Government Pension Scheme (LGPS).

In accordance with Government policy for Local Government employers, Tulip are required to provide pension benefits for future service which are broadly comparable to those provided under the LGPS or to participate in the LGPS for the provision of pension benefits for the transferring employees.

Tulip do not have a broadly comparable pension scheme and have contacted the Council and enquired about the possibility of Admitted Body Status for the transferred employees. Specifically for the one employee who will be in the LGPS at the date of transfer.

If agreed, Tulip would be admitted to the pension scheme under a 'closed' agreement i.e. only those employees transferring at the time the contract is effective would be admitted to the scheme, any new or existing employees of Tulip whether they are working on the Havering contract or not will not be eligible to join the pension scheme.

Officers advised the Committee that should Tulip go in to liquidation the indemnity or insurance bond should cover the council's exposure for the three years of the contract.

Having discussed the issues in detail the Committee **agreed** to admit Tulip to Havering's Pension Fund as an Admitted Body to enable those staff who transferred from the Council under TUPE to continue membership (or have the right to membership) of the LGPS (Local Government Pension Scheme) subject to;

- All parties signing up to an Admission agreement and
- An indemnity or insurance bond in an approved form with an authorised insurer or relevant institution, being put into place to protect the pension fund.

## **11. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 2009**

The Committee were advised, by Hymans Robertson, that the global equity markets had staged an exceptionally strong recovery during the second quarter, supported by a view that the worst of the financial crisis was over. In the UK, the FTSE All Share index returned 10.9%, and at the end of June was some 24% ahead of the low point reached in early March.

The improved sentiment in equity markets was not reflected in the real economy. In the UK, economic growth had now contracted for three consecutive quarters (-2.4% during the first quarter of 2009, the most recent available). In the USA and Japan, the decline was even greater. Unemployment in all regions was rising rapidly and is

a major source of concern. Although some leading indicators suggest that there are signs of recovery in the global economy, data published during the quarter gave mixed signals. The reluctance of banks to resume 'normal' lending to businesses and consumers remained a barrier to sustainable growth.

In the Chancellor's April budget statement, the full implications of the various economic measures on public debt became apparent. The level of debt is enormous and will take many years to bring back to 'normal' levels. Tax increases and spending cuts, even beyond those already announced seemed inevitable. In May, credit rating agency Standard and Poors expressed the view that the UK's triple 'A' rating was at risk in the absence of a credible plan to reduce public debt.

The prediction for quarter 3 was that we would see continued growth in the equity market.

Hymans Robertson advised the committee that they continue to monitor Alliance Bernstein closely for signs of weakness in the manager's investment process, underlying philosophy or key personnel changes. Their view was that Alliance Bernstein retains its strong research credentials and stock picking ability, but suffered last year due to a relatively narrow set of stock and sector decisions in the Financial sector and heightened volatility.

The press had reported on Bernstein's client outflows over quarter 1, which combined with market declines, has seen the value of assets under management fall by around 40%. Alliance Bernstein had cut its staff numbers in response to this, but Hymans Robertson believe that Bernstein still has the depth of skilled staff that it needs to manage its value and growth strategies.

In quarter 2 the Global sleeve of the blend portfolio narrowly underperformed the MSCI World index, with the Value sleeve performing strongly, thereby outweighing the under performance of the growth sleeve.

Hymans Robertson advised that UBS had been subject to a number of staff changes, particularly relating to the day to day running and management of the Triton Fund. The departures leave obvious gaps, especially in terms of strategy and general experience.

UBS's performance for the quarter shows a return of -3.5% against its benchmark return of -3.1%. The sale of Milton Gate (City Office), above Net Asset Value, had a positive effect on performance for the quarter. However, as this asset was income producing, its sale had increased the portfolio's void rate. Vacancies continue to have a negative effect on Triton's performance, increasing from 17.4% at the end of March to 19.5% at the end of June.

The team is reviewing its sales strategy to accommodate the outstanding redemptions of £125m. They will be choosy over which assets they sell, but will put more assets out to market than required in order to avoid fire sales.

**(a) Standard Life**

Representatives from Standard Life attended the meeting to make a presentation on their performance in quarter 2. In the quarter they had performed well exceeding both benchmark and relative return over Performance by over 5%. This level of performance had continued in quarter 3 to the end of August 2009.

Standard Life felt that the huge level of government borrowing would have consequences. As a result the government will need to cut public spending. However, the government would be starting from a low base and there would be still opportunities to add value. When asked to explain their strategy Standard Life explained how they met companies face to face. They took the view that we were not entering a state of long term depression. They still saw more value in the recovery based sector. The key was to be dispassionate and follow the investment process.

There were no governance issues to report.

The Committee **noted** the presentation from Standard Life.

**(b) Royal London**

During the second quarter, the bond portfolio returned 6.8% versus the benchmark of 4.4%. Royal London outperformed in every bond class. This trend had continued into the third quarter (up to 31<sup>st</sup> August). This out performance has been most pronounced within the Corporate bond portfolio, which returned 3.1% over the iBoxx index.

Royal London were predicting a slow down of growth next year. They were positioning themselves for the long-term, Corporate Bonds are not gambles. They were looking to change the balance of the portfolios.

There were no governance issues to report.

The Committee found it difficult to follow the presentation which was too technical and requested some basic training in bonds before the next presentation by Royal London.

The Committee **noted** the presentation from Royal London.

**(c) Investment Strategy**

Further to minute 4 of the meeting held on 6 August 2009 the Committee were advised that Hymans Robertson would be conducting the search for a Diversified Alternatives Manager and an Equities Passive Manager at a cost £35,000, which would be met from the Pension Fund. There had been a delay whilst the Council's Procurement Team agreed the terms of the adverts which it was expected would be placed in October. It was expected that selection interviews would take place early in the New Year.

Officers advised the Committee that the decision to reduce the Fund's Bond weighting in Index Linked Bonds by 5% to fund the alternative investments was still being re-considered by Hymans Robertson in the light of quantitative easing and the likely future impact of inflation.

Back in June the Committee had received a briefing from the Mill Group on their proposed investment opportunity. On being advised that no other local authorities had signed up for this proposal the Committee **agreed** that at this time they were not minded to make an investment in this investment opportunity.

**(d) Department of Communities and Local Government consultation paper**

Further to minute 5 of the meeting held on 6 August 2009 the Committee **noted** the response agreed by the Chairman (Appendix 'A').

**(e) Cash analysis**

Officers advised the Committee that following June's decision £6.3m in cash had been lodged with the Treasury's Debt Management Office until the 1<sup>st</sup> October 2009. Lloyds were now offering a better rate of return if funds were deposited for a minimum of three months. In the light of this advice the Committee agreed to place £6.3m in cash with Lloyds for three months commencing 1 October 2009.

**(f) WM Performance Measurers**

The Committee **noted** that officers met with a WM representative on the 3 August 2009 who gave a presentation on the 2008/09 returns of the WM universe. A summary of the major points are as follows:

- The WM universe was made up of 87 funds.
- The average local authority fund returned -19.9%, the worst outcome since WM universe began.
- Only a quarter of funds outperformed the benchmark.
- Total returns of the combined funds over the last 10 years were not even greater than inflation.
- Funds in the universe had an average of nine managers.
- Havering Pension fund return was -25.2%. The relative underperformance against the benchmark of -7.7% was totally attributable to manager's performance.
- The relative performance can be attributed to the effects of asset allocation and stock selection.
- In comparison to the universe Havering's asset allocation has been an issue but this is being addressed via strategy change although the overweight position in Bonds helped for the first time.
- Stock selection was the main problem in 08/09.
- One of the conclusions from the meeting was that having passive management in the portfolio of no more than 25% was a good move going forward.





## PENSIONS COMMITTEE

3 November 2009

## REPORT

<b>Subject Heading:</b>	<b>PENSION FUND ANNUAL REPORT – YEAR ENDED 31 MARCH 2009</b>
<b>Report Author and contact details:</b>	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: Debbie.ford@havering.gov.uk
<b>Policy context:</b>	Regulation 34 of the LGPS (Administration) Regulations 2008 requires an administrative authority to publish an annual report.
<b>Financial summary:</b>	2008/09 audit fees of £38,000.

### 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 2008/09 which has been prepared in accordance with Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

**RECOMMENDATIONS**

1. The committee agree the 2008-2009 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.

**REPORT DETAIL**

1. The LGPS (Administration) Regulations 2008 Regulation 34 states that an administering authority must, in relation to each year beginning on 1<sup>st</sup> 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 2008 to 31 March 2009.
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 administering authorities with the preparation and publication of the annual report. This guidance set out in detail the required contents of an annual report which incorporated a larger than expected number of items for each of the above reports. This guidance has yet to be formally adopted by the CLG so the annual report attached as Appendix A has been prepared in accordance with the regulations in paragraph 2. Formal consultation on the guidance has yet to be issued by the CLG.
4. For 2008/09, 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 09.

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 2008/09 is £38,000. 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

2008/2009 Statement of Accounts  
Statement of Investment Principles (May 09)  
Funding Strategy Statement (Nov 08)  
Governance Compliance Statement (Nov 08)  
Communications Strategy (Nov 08)





# Haverling

LONDON BOROUGH

**HAVERING PENSION FUND**

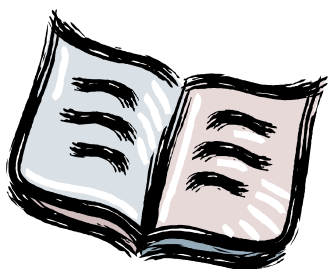
**ANNUAL REPORT**

**MARCH 2009**

**Pensions Regulator**  
**Registration Number**  
**10027841**

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

Tel: 01708 432217  
Fax: 01708 432162



<u>CONTENTS</u>	<u>PAGE</u>
TRUSTEE REPORT	
<u>Message from the chairman</u>	<u>3</u>
<u>Introduction</u>	<u>4</u>
MANAGEMENT AND FINANCIAL REPORT	5 - 8
INVESTMENT POLICY AND PERFORMANCE REPORT	9 -13
SCHEME ADMINISTRATION REPORT	14 -15
ACTUARIAL REPORT	16 -17
GOVERNANCE COMPLIANCE STATEMENT	18 - 20
FUND ACCOUNT AND NET ASSET STATEMENT	21 - 27
BENCHMARKING REPORT	28
FUNDING STRATEGY STATEMENT	28
STATEMENT INVESTMENT PRINCIPLES	28 - 29
COMMUNICATION STRATEGY	29
CONTACT POINTS FOR FURTHER INFORMATION	30
APPENDICES	31
<u>Governance Compliance Statement</u>	<u>32 - 42</u>
<u>Communication Strategy</u>	<u>42 - 48</u>
<u>Funding Strategy Statement (FSS)</u>	<u>49 - 57</u>
<u>Statement of Investment Principles (SIP)</u>	<u>58 - 70</u>
<u>Myner's Compliance Table</u>	<u>71 - 76</u>

## TRUSTEE REPORT

### Message from the Chairman

Welcome to the annual report of the activities and accounts of the Havering Pension Fund which covers the period 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2009 (2008/09).

On pages 17-18 you will see the Pensions Committee considered a number of reports covering key issues and also undertook a number of associated training and development sessions.

As well as this report highlighting the work of the Pensions Committee you will see an overview of the work carried out by the Pensions Administration team.

During 2008/09 the Committee undertook a review of its investment strategy following the results of the 2007 Valuation and an asset liability study undertaken by the fund's advisors. This review resulted in some restructuring but given that the markets had seen unprecedented volatility and falls in market values some of the intended restructuring had yet to be implemented in 2008/09. The committee has started to make some of these structure changes during 2009/10 and will have a busy year appointing two new fund managers.

The value of the Fund as at 31<sup>st</sup> March 2009 was £263m (a reduction of 24.6% compared to £349m in 2007/08). This was invested in equities in listed companies both in the UK and overseas, bonds, property funds and cash.

The overall return on the fund's investments in 2008/09 was - 25.4% (2007/08 -5.9%). This represented an underperformance of -8.0% (2007/08 -3.6%) against the tactical benchmark and an underperformance of -33.1% (2007/08 -13.0%) against the strategic benchmark.

One of the major factors influencing the fund value and performance of the pension fund was the unprecedented volatility on financial markets in the wake of the credit crunch and economic downturn. Stock markets have fallen dramatically over the year which has been reflected in the disappointing performance of the fund.

For 2008/09 it is a statutory requirement that this report is produced annually. Whilst we did produce an annual report for 2007/08 ahead of the statutory requirement there have been a number of changes to the report this year to bring it more in line with the guidance produced by the Department of Communities and Local Government (CLG).

I hope you find this report provides clear information but should you require clarification or wish to give feedback on this report you will find the contact details at the back of the report.

Councillor Melvin Wallace  
Chairman – Pensions Committee (May 2006- April 2009)

## INTRODUCTION

The Council is an administering Authority under the Local Government Pension Scheme Regulations 2007 and as such invests employee and employer contributions into a Fund in order to pay pension benefits to scheme members. The Fund is called the Havering Pension Fund (the 'Fund').

The Fund provides benefits to Council employees (except teachers) which include retirement pensions, death grants and other lump sums payments. Civil partners are now recognised as having the same benefit rights as members' spouses.

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**

From 1<sup>st</sup> April 2008, the new look pension scheme came into force for all active members and potential members of the Local Government Pension Scheme.

The Council issued newsletters and DVDs to all active members who were automatically transferred to the new scheme.

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.

## MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

### SCHEME MANAGEMENT AND ADVISORS

The Council sets the overall investment strategy of the Fund and monitors performance of four different managers (who have specific mandates) against an agreed performance in relation to an agreed benchmark. The Council had delegated this responsibility to the Pensions Committee.

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

Pensions Committee members during 2008/09:

Cllr Melvin Wallace (Chairman) – Conservative Group  
Cllr Roger Ramsey (Vice Chairman) – Conservative Group  
Cllr Benham – Conservative Group  
Cllr Robby Misir – Conservative Group  
Cllr Clarence Barrett – Residents Group  
Cllr Linda van den Hende – Residents Group  
Cllr Jeffrey Tucker (commenced August 2008) – Independent Local Residents Group

Non voting Union Members:  
Brian Long (Unison)  
Sean Ramsden (UNITE)

Non voting Admitted/scheduled Body Representative:  
David Holmes – Havering College of Further and Higher Education (commenced September 2008)

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

Auditors	Price Waterhouse Coopers (PWC)
Custodians	State Street Global Assets
Investment Managers	Standard Life Investments (UK Equities) Royal London Asset Management (Investment Bonds) Western/Citigroup (Global High Yield Bonds) (Holdings redeemed August 2008) Alliance Bernstein Institutional Investors (Global Equities) UBS (Property) HG Capital (Private Equity)
Investment Advisers	Hymans Robertson
Legal Advisers	London Borough of Havering Legal Services provide legal advice as necessary (specialist advice is procured as necessary)
Bankers	NatWest
Performance Measurement	WM Company
AVC Providers	Prudential and Standard Life
Director of Finance and Commerce	Rita Greenwood (replaced by Andrew Blake-Herbert Sept 09)
Pension Fund Accountant	Debbie Ford
Independent Advisors	None

The Pensions Committee met 5 times during 2008/09. In addition, the Committee had a series of special meetings to discuss and implement the investment strategy agreed in September 2008. More detailed information can be found in the Governance Compliance Statement section of this report.

## MANAGEMENT PERFORMANCE

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

	As at 31 March 2009	As at 31 March 2008	As at 31 March 2007	As at 31 March 2006	As at 31 March 2005
Contributors	5,723	5,803	5,664	5,613	5,323
Deferred pensioners	3,463	3,094	2,762	2,580	2,357
Pensioners and Dependants	4,746	4,587	4,468	4,391	4,299

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.

### Employers in the Fund:

- 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
- Catering for Education
- Sports & Leisure Management Ltd
- KGB Cleaners

**Contributions to the Fund**

Employees who were eligible to be members of the scheme prior to 31 March 1998 are 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 are required to pay 6% of earnings.

With effect from 1<sup>st</sup> April 2008 instead of paying a standard contribution rate, as mentioned above, there will be different contribution rates for different pay bands. 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 rates 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) to maintain the solvency of the Fund. The employers' contribution for the London Borough of Havering employees was 21.7% of salary in 2008/2009 (2007/08 21.5%). The Council's annual contribution is reviewed every three years. The latest review was based on data as at 31<sup>st</sup> March 2007 and will effect employer contribution for 2008/09, 2009/10 and 2010/11.

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

<b>Contributing employers</b>	<b>Active Members</b>	<b>Contributions from Members £</b>	<b>Contributions from Employers £</b>
London Borough Havering	5,020	5,289,395	17,994,758
Homes in Havering	183	294,945	938,798
Havering College of Further & Higher Education	255	303,452	741,157
Havering sixth form college	73	62,583	151,301
Citizens Advice Bureau	2	4,389	15,726
ACIT (no longer an employer in the Fund)	0	0	6,491
May Gurney	2	2,208	11,422
Morrisons	60	106,716	357,353
Sports & Leisure Management	127	71,220	188,669
Catering for Education (in liquidation Aug 08)	0	925	3,493
KGB Cleaners	1	368	1,555
<b>TOTAL</b>	<b>5,723</b>	<b>6,136,201</b>	<b>20,410,723</b>

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

#### Pension Services Local Performance Indicators 2008/09

INDICATOR	What is it an indicator of	Actual 2007/08	Actual 2008/09	Target 2008/09
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	96.24%	95.67%	95%
The percentage of early retirement estimates processed within 15 working days	To produce estimates for early retirements i.e. ill- health's, redundancies and voluntary retirements within 15 working days of request. This indicator is particularly important to service clusters	92.32%	91.82%	97%
The percentage of Notification of deferred benefits within 1 month	The percentage of deferred benefits calculated within one month of the employee leaving the scheme	86.51%	52.48%	90%
The percentage of refunds processed within 10 working days	The percentage of refunds of contributions processed upon request by former employees. This indicator is a standard used throughout the Local Government and will serve as a good benchmark	90.24%	No longer monitored due to de-minimus numbers	
The percentage of joiners processed within 1 month of info received AXIS	The percentage of joiners processed upon receipt of necessary paperwork from payroll or admitted today.	Not captured	55.57%	88%
The percentage of nomination forms processed within 10 working days of receipt Indicator 38	The percentage of nomination forms received, AXIS updated and member notified	Not captured	97.99%	95%
Accurate calculation of benefit figures	The accuracy of first time benefit calculations at the checking stage. A quality measure to ensure customers receive correct payments at the earliest opportunity. This indicator can be directly controlled by pension staff	98.09%	98.09%	98.5%

## 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 Bond's manager was therefore terminated in August 2008.

The four fund managers and the market value of assets under their management at the 31<sup>st</sup> March 2009 were as follows:

Manager	Mandate	Value	
		£,000	%
Standard Life	UK Equities	70,216	29.07
Alliance Bernstein	Global Equities	65,002	26.91
Royal London	Investment Grade Bonds	88,002	36.43
UBS	Property	18,196	7.54
	<b>Sub total</b>	<b>241,416</b>	<b>99.95</b>
	Other	116	0.05
	<b>Total Fund</b>	<b>241,532</b>	<b>100.00</b>

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

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

Fund Manager performance is reported to the Pensions Committee on a quarterly basis. Managers are required to present at the Pensions Committee every six months. On alternate quarters fund managers meet with officers for a formal monitoring meeting. The exception to this is the Property Manager, who will attend two meetings per year, one with officers and one with the Pensions Committee.

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 is as follows:

Asset Class	Previous asset allocation as per SIP prior to Sep 08	Revised Target Allocation as per SIP post Sep 08	Asset Allocation As at 31 March 2009	
	%	%		%
UK Equities	30	33		27
Global Equities	20	27		25
Investment Grade Bonds	30	25		34
Property	10	10		7
Alternatives	0	5		0
Global High Yield bonds	10	0		0
Cash	0	0		7
Private Equity	0	0		0

Given that the markets have seen unprecedented volatility and markets falls during the year some of the intended restructuring had yet to be implemented during 2008/09. 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.

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

	<u>Market Value at</u>	<u>Proportion of the</u>
	<u>31 March 09</u>	<u>total investment</u>
	£m	%
BP PLC	7.2	2.98
Treasury Bond	5.9	2.46
UK Government Bond	5.1	2.15
Vodafone Group	4.9	2.04
UK Government Bond	4.0	1.66
ACM Bernstein Value Investment	3.8	1.60
UK Government Bond	3.6	1.50
UK Government Bond	3.4	1.44
Glaxosmithkline	3.3	1.38
UK Government Bond	3.1	1.30
<b>Total</b>	<b>44.3</b>	<b>18.51</b>

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

	<u>Market Value at</u>	<u>Proportion of the</u>
	<u>31 March 09</u>	<u>total investment</u>
	£m	%
BP PLC	7.2	2.98
Vodafone Group	4.9	2.04
ACM Bernstein Value Investment	3.8	1.60
Glaxosmithkline	3.3	1.38
Royal Dutch Shell	2.9	1.22
Xstrata	2.8	1.17
Rio Tinto	2.2	0.93
HSBC Holdings	2.2	0.93
Barclays	1.8	0.76
Royal Dutch Shell	1.7	0.70
<b>Total</b>	<b>32.8</b>	<b>13.71</b>

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 08 is £18.196m (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.

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>31.03.08</u> %	<u>1 year to</u> <u>31.03.09</u> %	<u>3 Years to</u> <u>31.3.09</u> %	<u>5 years to</u> <u>31.3.09</u> %
Fund Return	-5.9	-25.4	-9.3	0.4
<b>Tactical Benchmark</b>	-2.4	-18.9	-5.8	2.3
*Difference (performance)	-3.6	-8.0	-3.7	-1.9
Fund Return	-5.9	-25.4	-9.3	0.4
<b>Strategic Benchmark</b>	8.1	11.5	7.1	9.4
*Difference (performance)	-13.0	-33.1	-15.3	-8.2

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

In 2008/09, the overall return on the Fund's investments was -25.4% (2007/08 -5.9%). This represented an under performance of -8.0% against the tactical benchmark (2007/08 -3.6%) and an underperformance of -33.1% against the strategic benchmark (2007/08 -13.0%).

During 2008 there has been unprecedented volatility in financial markets in the wake of the credit crunch and economic downturn. Stock market values have fallen dramatically over the year which has been reflected in the disappointing performance of the fund.

Main detractors from performance for 2008/09 were attributable to stock selection in UK and Overseas Equities.

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 30%	UK Equities	FTSE All Share Index	2%
Alliance Bernstein 30%	Global Equities	MSCI All World Index	2.5%
Royal London Asset Management (RLAM) 30%	Investment Grade Bonds	<ul style="list-style-type: none"> <li>50% iBoxx Sterling Non Gilt Over 10 Year Index.</li> <li>16.7% FTSE Actuaries UK Gilt Over 15 Years Index</li> <li>33.3% FTSE Actuaries Index-Linked Over 5 Year Index</li> </ul>	0.75%
UBS 10%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Alternatives (possibly 5%)	Alternatives	Not yet appointed and kept under review until the market settles	

The following table compares each fund manger performance against their specific benchmark and their performance target for the twelve months ending 31 March 09:

	Standard Life	Alliance Bernstein	Royal London	UBS
Return (performance)	-22.2	-25.7	0.9	-31.7
Benchmark	-20.5	-14.6	2.5	-27.0
<b>*Over/(Under) Performance vs. Benchmark</b>	<b>-2.1</b>	<b>-13.0</b>	<b>-1.6</b>	<b>-5.4</b>
TARGET	-18.5	-12.1	3.25	n/a
<b>* Over/(Under) Performance vs. Target</b>	<b>-4.0</b>	<b>-15.5</b>	<b>-1.6</b>	<b>n/a</b>

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

## SCHEME ADMINISTRATION REPORT

### OVERVIEW

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 (10 posts) including a part time temporary member of staff.

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

### Pension administration work programme for 2008/09

In addition to the ongoing work of the pension administration section there were some key projects that were identified as part of the unit's work programme:

- Continuation of the Pension Partnership with Redbridge including a joint communication project to produce a joint scheme booklet to reflect the new Pension Regulations.
- Implementation of the new pension regulations which came into effect on the 1<sup>st</sup> April 2008.
- Improving the efficiency of service processes by the use of 'Word' integration.
- Staff training and development on new legislation and subsequent system updates.
- There were also a number of unplanned pieces of work, one of which was the preparation for the relocation of the Pensions Service including work on a document management solution for the unit prior to the move. Additionally, there was a number of unplanned reorganisations entailing retirement/ redundancy estimates.

Havering has continued to have a close working relationship with the London of Redbridge and their have been a number of joint initiatives including the production of a joint scheme booklet to take into account the amendments to the regulations which came into force from 1<sup>st</sup> April 2008.

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.

The Administration costs charged to the Fund for the year ending 31 March 2009 is £542,447.20 (includes audit and actuary fees).



**Annual Benefit Statements**

Annual benefit statements are produced by the Pensions Office for members of the scheme with more than 3 months membership, which provide details of the member's own pension benefit entitlements. An annual report in the form of a leaflet is sent to contributors and deferred pensioners with the annual benefit statements and is sent to pensioners with their pension increase letters.

**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](http://www.havering.gov.uk) and follow the links 'Council and Democracy', 'About Council Tax and our Finances', '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 2009****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 2008/09 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 are higher than expected investment returns on the Fund's assets, along with additional employer contributions paid to reduce the deficit revealed at the 2004 valuation. These have been partially offset by the impact of changes in the actuarial assumptions used 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 are 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 has 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 using the projected unit actuarial method and taking account of the Fund's funding strategy as described in the Funding Strategy Statement.

6. The main actuarial assumptions were as follows:

Discount rate for periods

In service

Admitted Bodies	6.2% a year
Scheduled Bodies	6.2% a year

Left service

Admitted Bodies:	5.2% a year
Scheduled Bodies:	6.2% 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. This statement has been prepared by the Actuary to the Fund, Hewitt Associates Limited (previously Hewitt Bacon & Woodrow 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 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, the London Borough of Havering, in respect of this statement.

Hewitt Associates Limited  
June 2009

## GOVERNANCE COMPLIANCE STATEMENT

### 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](http://www.havering.gov.uk). (Within 'Council and Democracy', 'Finance', 'Havering Pension Fund')

### MEMBER INVOLVEMENT

#### Training and Development

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. This covered:

- Three training sessions combined with Special Pension Committee meetings for the 2008 Investment Strategy Review.
- Three day Trustee Training course for new committee member Councillor Benham.
- Alternative Investments and their associated asset classes.
- Alternative assets and options for pooled/segregated management

Please see table below for details of training sessions and by whom they were attended:

**Pension Committee Member Training 2008/09:**

DATE	TOPIC COVERED	ATTENDED BY
22 April 08	Pensions Overview – Informal one to one training by Pension Fund Accountant	Cllr Benham
24 April 08	Local Authority Investment Seminar provided by Standard Life	Cllr Ramsey
13 May 08	Training/special Pensions committee meeting by Investment Advisors: <ul style="list-style-type: none"> <li>• Phase 1 Investment Strategy Review</li> </ul>	Cllr Wallace Cllr Benham Cllr Kelly (sub for Cllr Ramsey) Cllr Van den Hende Cllr Barrett
9 June 08	Training/special Pensions committee meeting by Investment Advisors: <ul style="list-style-type: none"> <li>• Phase 2 Investment Strategy Review</li> </ul>	Cllr Ramsey Cllr Benham Cllr Galpin (sub for Cllr Wallace) Cllr Van den Hende Cllr Misir
17 July 08	Training/special Pensions committee meeting by Investment Advisors: <ul style="list-style-type: none"> <li>• Phase 3 Investment Strategy Review</li> </ul>	Cllr Wallace Cllr Benham Cllr Barrett
25 Sept 09	Alternative Asset Classes by Investment Advisor	Cllr Wallace Cllr Ramsey Cllr Benham Cllr Van den Hende Cllr Misir
13 Oct 08 13 Nov 08 9 Dec 08	Local Government Employers delivering Trustee Training: <ul style="list-style-type: none"> <li>• Day 1 <ul style="list-style-type: none"> <li>○ LGPS framework (past and present)</li> <li>○ Investment framework</li> <li>○ Traditional Asset Classes</li> </ul> </li> <li>• Day 2 <ul style="list-style-type: none"> <li>○ Valuations</li> <li>○ Funding Strategy Statements</li> <li>○ Corporate Governance</li> <li>○ Communication Strategies/Policies</li> <li>○ Established Alternative Investments</li> </ul> </li> <li>• Day 3 <ul style="list-style-type: none"> <li>○ Duties and responsibilities of committee members</li> <li>○ The future for LGPS</li> <li>○ Manager and Manager selection</li> <li>○ Bringing it all together.</li> </ul> </li> </ul>	Cllr Benham
18 Dec 08	Schroders delivered training in Investing in Alternative Assets and options for pooled/segregated management	Cllr Ramsey Cllr Benham Cllr Van den Hende Cllr Tucker Cllr Thompson (sub for Cllr Wallace) David Holmes (Employer rep) Brian Long (Unison) John Giles (Unison)
3 March 09	Pensions Overview – Informal one to one training by Pension Fund Accountant	Cllr Tucker

A Training and Development Plan is in place for 2009/10 which is linked to the Pension Fund Coverage of meetings. Full coverage of the pensions committee work and training plan can be found on the Council's website: [www.havering.gov.uk](http://www.havering.gov.uk) within 'Council and Democracy', 'Finance', 'Havering Pension Fund', report on the work of the pensions committee').

#### **Key reports arising in the period**

- **Communication Strategy and Governance Policy**

In line with the 1997 Local Government Pension Scheme (LGPS) regulations the London Borough of Havering as an administering authority has undertaken an annual review of the Pension Fund's Communication Strategy and Governance Policy (replaced by the Governance Compliance Statement).

- **Whistleblowing Requirements of the Pensions Act**

An annual review was undertaken and no breaches were reported.

- **Annual Report for Members of the Fund (Pension fund Leaflet)**

This was reviewed and approved for distribution.

- **Reviewed performance of Advisers, Custodians and Actuary**

- **Considered performance of Pensions Administration Service**

- **Considered Alternative Investments**

- **Pension Fund performance Monitoring for periods ending 31 March 08, 30 June 08, 30 September 08 and December 08.**

- **Review of Statement of Investment Principles and Funding Strategy Statement**

- **Considered and agreed the Pension Fund Annual Report 2007/08.**

All the pension committee agenda and minutes can be found on the Council's website at : [www.havering.gov.uk](http://www.havering.gov.uk) and follow the links 'council and democracy', 'committee agendas and minutes', '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 2008/09 there were no conflict of interests declared.

## FUND ACCOUNT AND NET ASSET STATEMENT

### Havering Pension Fund Account for the year ended 31<sup>st</sup> March 2009

2007/08 £'000		Note	2008/09 £'000
<b>Contributions and benefits</b>			
24,963	Contributions receivable	3	26,547
4,178	Transfers in	4	1,189
<b>29,141</b>			<b>27,736</b>
(22,719)	Benefits payable	5	(23,720)
(1,660)	Leavers	6	(1,347)
(580)	Administration	7	(542)
<b>(24,959)</b>			<b>(25,609)</b>
<b>4,182</b>	<b>Net additions (withdrawals) from dealings with members</b>		<b>2,127</b>
<b>Returns on Investments</b>			
(1,153)	Investment management expenses	8	(1,185)
(31,955)	Change in market value of investments	9	(98,151)
11,686	Investment income	10	10,953
<b>(21,422)</b>	<b>Net returns on investments</b>		<b>(88,383)</b>
<b>(17,240)</b>	<b>Net increase/ (decrease) in the Fund during the year</b>		<b>(86,256)</b>
366,148	Net assets of the scheme at start of year		348,908
<b>348,908</b>	<b>Net assets of the scheme at end of year</b>		<b>262,652</b>

Net Asset Statement			31 March 2009 £'000
31 March 2008 £'000		Note	
349,054	Investment assets	11	262,624
329	Current assets	12	326
(475)	Current liabilities	13	(298)
<b>348,908</b>	<b>Net assets of the scheme at end of year</b>		<b>262,652</b>

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 47 and 48 in the London Borough of Havering statement of 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).

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

A proportion of relevant officers' salary costs, including related oncosts, 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. The comparative figures for investments are shown at their mid-market value as stated in the previous year's financial statements. The comparative figures have not been restated at the bid price on the grounds that the difference in the valuation overall is immaterial. Any adjustment to the values would be reflected in the change in market value.

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.



**3. Contributions Receivable**

2008/09	Members £'000	Employers £'000	Total £'000
Havering Augmentation Scheduled Bodies Admitted Bodies	5,289 661 186	17,393 *653 1,780 585	22,682 653 2,441 771
	<b>**6,136</b>	<b>20,411</b>	<b>26,547</b>

2007/08	Members £'000	Employers £'000	Total £'000
Havering Augmentation Scheduled Bodies Admitted Bodies	4,702 590 180	16,595 *587 1,721 588	21,297 587 2,311 768
	<b>**5,472</b>	<b>19,491</b>	<b>24,963</b>

\* The special contribution of £0.653m (£0.587m in 07/08) is in respect of early retirements.

\*\*This includes £150,974 (£119,000 07/08) of additional contributions by employees to purchase added years.

**Note:** Some employees made additional voluntary contributions (AVC's) of £66,827 (£77,130 07/08) 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 2008/09 were £58,545 to the Prudential and £8,282 to Standard Life. These amounts are not included in the Pension fund Account in accordance with regulation 5(2) of the Pension Scheme (Management and Investment of Funds) Regulations 1988 (SI1998 No 1831)

**4. Transfers In**

	2008/09 £'000	2007/08 £'000
Individual transfers from other schemes	1,189	4,178

**5. Benefits Payable**

2008/09	Pensions £000	Lump Sums £'000	Total £'000
Havering Scheduled Bodies Admitted Bodies	19,134 219 63	4,064 240 0	23,198 459 63
	<b>19,416</b>	<b>*4,034</b>	<b>23,720</b>

\* includes £0.563 m in lump sum death benefits

2007/08	Pensions £000	Lump Sums £'000	Total £'000
Havering Scheduled Bodies Admitted Bodies	18,272 189 53	3,867 221 117	22,139 410 170
	<b>18,514</b>	<b>*4,205</b>	<b>22,719</b>

\* includes £0.504m in lump sum death benefits

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

	2008/09 £'000	2007/08 £'000
Refunds to members	2	1
Individual Transfers out to other schemes	1,345	1,659
	<b>1,347</b>	<b>1,660</b>

**7. Administrative expenses**

	2008/09 £'000	2007/08 £'000
Administration & Processing	476	461
Actuarial Fees	10	107
Audit Fees	38	0
Other Fees	7	0
Other costs	11	12
	<b>542</b>	<b>580</b>

**8. Investment Management Expenses**

	2008/09 £'000	2007/08 £'000
Administration, Management & custody	1,089	1,105
Performance measurement services	11	11
Other Advisory Fees	85	37
	<b>1,185</b>	<b>1,153</b>

**9. Investments**

	<b>Value at 31 March 2008</b>	<b>Purchases at cost and derivative payments</b>	<b>Sales Proceeds and derivative receipts</b>	<b>Change in Market Value</b>	<b>Cash Movement</b>	<b>Value at 31 March 2009</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Equities	173,177	116,548	(92,259)	(73,129)	0	124,337
Derivatives	170	4,290	(4,290)	(62)	0	108
Fixed interest Securities	64,855	129,214	(127,532)	(9,325)	0	57,212
Index-linked Securities	29,865	48,702	(48,577)	(1,088)	0	28,902
Pooled Investment Vehicles	65,171	4,180	(28,464)	(14,464)	0	26,423
Cash instruments	5	22,548	(22,055)	0	0	498
Cash deposits (fund managers)	4,975	0	0	(62)	(861)	4,052
	<b>338,218</b>	<b>325,482</b>	<b>(323,177)</b>	<b>(98,130)</b>	<b>(861)</b>	<b>241,532</b>
Other Investment Balances	4,163	0	0	(21)	(2,349)	1,793
Cash deposits (banks)	0	0	0	0	11,300	11,300
Short term investments	6,673	0	0	0	1,326	7,999
	<b>349,054</b>	<b>325,482</b>	<b>(323,177)</b>	<b>(98,151)</b>	<b>9,416</b>	<b>262,624</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments 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 £431,117 (2007/08 £403,902). 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.

**10. Investment Income**

	<b>2008/09 £'000</b>	<b>2007/08 £'000</b>
Income from Fixed Interest Securities	4,276	4,345
Dividends from Equities	6,145	5,937
Income from Pooled Vehicles	1,116	1,692
Cash & Deposits	527	363
Other	75	0
<b>Other Income</b>		
Foreign Exchange profits/ (Losses)	(1,186)	(651)
<b>Total Income</b>	<b>10,953</b>	<b>11,686</b>

**11. Investments**

	2008/09 £'000	2007/08 £'000
<b>Equities</b>		
UK Quoted	72,159	113,630
Overseas	52,178	59,547
	<b>124,337</b>	<b>173,177</b>
<b>Fixed Interest securities</b>		
UK	0	64,855
UK Public	15,112	0
UK Private	42,100	0
	<b>57,212</b>	<b>64,855</b>
<b>Index-Linked Securities</b>		
UK	0	29,865
UK Public	26,394	0
UK Private	632	0
Overseas Public	1,823	0
Overseas Private	53	0
	<b>28,902</b>	<b>28,865</b>
<b>Pooled Investment Vehicles</b>		
<b>UK Managed Funds -Other</b>		
UK Quoted	1,520	1,732
UK Unquoted	47	90
Overseas	4,651	35,642
Property	2,272	0
<b>UK Unit Trust</b>		
UK Property	17,933	27,707
	<b>26,423</b>	<b>65,171</b>
<b>Cash Instruments</b>		
UK	498	5
	<b>498</b>	<b>5</b>
<b>Cash Deposits</b>		
Managers	4,025	4,949
Futures cash	27	26
	<b>4,052</b>	<b>4,975</b>
<b>Cash Deposits</b>		
Banks	11,300	0
	<b>11,300</b>	<b>0</b>
<b>Short Term Investments</b>		
L.B of Havering	7,999	6,673
	<b>7,999</b>	<b>6,673</b>
<b>Other Investment balances</b>		
Outstanding sales	2,096	4,416
Investment income	1,424	1,116
Outstanding dividend and recoverable withholding tax	850	1,735
Outstanding trades	(2,461)	(3,104)
Investment income	(116)	0
	<b>1,793</b>	<b>4,163</b>
<b>Total Investments</b>	<b>262,624</b>	<b>349,054</b>

**12. Current Assets**

	2008/09 £'000	2007/08 £'000
Pension grants	16	20
Contributions due from employers	229	232
Contributions due from employees	81	77
<b>Current Assets</b>	<b>326</b>	<b>329</b>

**13. Current Liabilities**

	2008/09 £'000	2007/08 £'000
Unpaid benefits	(18)	(181)
Accrued expenses	(280)	(294)
<b>Net Current assets</b>	<b>(298)</b>	<b>(475)</b>

**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 2008/09, £0.475m was paid to the Council for Administration (£0.461m in 2007/08) and £18.046m (£17.182m in 2007/08) 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.

## 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 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 fairly the financial position and transactions of the Authority at 31 March 2009 and its income and expenditure for the year ended 31 March 2009.

**Councillor Melvin Wallace  
Chairman, Pensions Committee  
October 2009**

**Andrew Blake-Herbert  
Group Director Finance and Commerce  
October 2009**

***Insert Auditors Report***

## **BENCHMARKING REPORT**

Under regulation 34(1) (g) and in accordance with 65 (2) (b) of the 2008 Administration Regulations, an administrative authority may include an annual report dealing with the funds position with regard to benchmarking administration performance. The administrative authority currently has not adopted a Pension Administration Strategy. This has been considered and is currently keeping this option under review.

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**

The administrative authority produces a Funding Strategy Statement which encompasses the aims and purposes of the fund, and the overall investment strategy.

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](http://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**

The Local Government Pension Scheme regulations require the administering authority to prepare and publish a Statement of Investment Principles. 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 specially for the LGPS (including representatives of CLG and CIPFA) who are amending the principles to fit the LGPS. Until these amendments are agreed, consulted on and following a revision of the LGPS regulations, it is a statutory requirement to continue reporting against the original ten principles until instructed otherwise by the CLG.

Information on how Havering has complied with these ten principles is included in the Statement of Investment Principles.

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

This Statement has also been published on the Council's website at [www.havering.gov.uk](http://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

Regulation 67 of the Local Government Pension Scheme Administration Regulations 2008 require 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](http://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, 4<sup>th</sup> Floor  
Romford,  
RM1 3DS

Telephone: 01708 432978/ 2981/ 2192

Email: [pensions@havering.gov.uk](mailto: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](mailto:debbie.ford@havering.gov.uk)

### **Other useful addresses:**

Local Government Pension Scheme website: [www.lgps.org.uk](http://www.lgps.org.uk)

The Pension Service website: [www.thepensionservice.gov.uk](http://www.thepensionservice.gov.uk)



# **APPENDICES**



# Haverling

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

## **PENSION FUND**

## **GOVERNANCE STATEMENT**

**REVISED NOVEMBER 2008**

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 six councillors listed below:

<b>Conservative Group</b>	<b>Residents' Group</b>
Melvin Wallace (Chairman)	Clarence Barrett
Roger Ramsey (V.Chairman)	Linda Van den Hende
Robert Benham	
Robby Misir	

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.

	<b>PRINCIPLE</b>	<b>HAVING POSITION</b>
<b>A</b>	<p><b><u>Structure</u></b> 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>

	<b>PRINCIPLE</b>	<b>HAVING POSITION</b>
<b>B</b>	<p><b><u>Representation</u></b></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"> <li>i) employing authorities (including non-scheme employers, e.g. admitted bodies);</li> <li>ii) scheme members (including deferred and pensioner scheme members),</li> <li>iii) where appropriate, independent professional observers, and</li> <li>iv) expert advisors (on an ad-hoc basis)</li> </ul>	<p>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.</p> <p>ii) Full compliance – via 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>



	<b>PRINCIPLE</b>	<b>HAVING POSITION</b>
<b>C</b>	<b><u>Selection and role of lay members</u></b> a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Full compliance. Duties and terms of reference are laid out in the Councils constitution and states that management of the pension fund lies with the Pensions Committee.  Sections 2 and 3 of the Governance Compliance Statement refer.
	b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Full compliance. Declarations of interest are always an agenda item at the Pension Committee meetings.  Section 7 of the Governance Compliance Statement refers.
<b>D</b>	<b>Voting</b> a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Partial compliance. The Governance Compliance Statement is clear about voting rights but currently does not include justification for not extending voting rights to each body.  <b>Going forward</b> – Pension Committee members have decided to review voting rights when the new membership arrangements are in place (i.e. membership has been extended to include one representative for the admitted/scheduled bodies but the position was only filled in September 2008.  Section 3 of the Governance Compliance Statement refers.

	<b>PRINCIPLE</b>	<b>HAVING POSITION</b>
<b>E</b>	<b><u>Training/Facility time/Expenses</u></b>	
	a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Full compliance. Member's expenses and allowances are laid out in the Council's Constitution (Part 6).  An annual training plan is drawn up at the start of each calendar year; consideration is given to prioritise training around the issues that may require decisions in the forthcoming year.
	b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full compliance. As above.
	c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken	Full compliance.  As above. An annual training plan is drawn up at the start of each calendar year and agreed by members of the Pensions Committee. A log is maintained and records attendance and training undertaken.  Section 4 of the Governance Compliance Statement refers.
<b>F</b>	<b><u>Meetings (frequency/quorum)</u></b>	
	a. That an administering authority's main committee or committees meet at least quarterly	Full compliance. The Pension committee meets five times a year and occasionally holds extra meetings if and when required.  Sections 2, 3 and 6 of the Governance Compliance Statement refer.

	<b>PRINCIPLE</b>	<b>HAVERING POSITION</b>
	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 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"> <li>• Through invitation to committee meeting</li> <li>• Written correspondence – employers are invited for comments via letters and email as part of any consultation process on proposed policy changes.</li> <li>• Views are also invited from scheme members, details of which are contained in an annual leaflet. This is distributed with the annual benefit statements and available on the council's website.</li> </ul>
<b>G</b>	<b><u>Access</u></b> 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 published on the Council's website.</p> <p>Section 8 of the Governance Compliance Statement refers.</p>

	<b>PRINCIPLE</b>	<b>HAVING POSITION</b>
<b>H</b>	<b><u>Scope</u></b> 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.
<b>I</b>	<b><u>Publicity</u></b> a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Full compliance. Governance arrangements are published on the council's website and comments are invited from stakeholders.  Section 8 of the Governance Compliance Statement refers.



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

**HAVERING PENSION FUND**

**COMMUNICATION STRATEGY**

**(REVISED MARCH 07 AND COMPLIANCE  
CHECKED NOV 08)**

## 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 will establish 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.

### Abridged Report and Accounts

An abridged copy of the Fund's Report and Accounts is circulated to all Scheme members on an annual basis via a pension fund leaflet/booklet.

### Annual Newsletter

Newsletters are issued to members of the Fund, at least annually, the contents

of which cover 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.

### 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.

### 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.

### **Non Joiner Campaigns**

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.

### **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**

Fund Officers 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.



### **Ill-health Retirements**

"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.

### **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. 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 Exchequer 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 frequently.

### **Issues Meetings**

Regular meetings take place between the Executive Director for Finance and Commercial 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.

### **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, make themselves 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 Commercial, with the exception of the property fund manager who alternatively presents their information on a six monthly cycle.

## **OTHER BODIES**

### **Trade Unions**

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

possible, continued access to the Local Government Pension Scheme.

### **Seminars**

Fund Officers regularly participate at seminars and conferences.

### **Data Protection**

To protect any personal information held on computer, London Borough of Havering is registered under the Data

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

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

### **Further Information**

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

**Write to us at:  
Pensions Service  
4<sup>th</sup> Floor, Mercury House  
Romford  
RM4 3DS**

**Tel: 01708 432192/432981  
Fax: 01708 432078  
E-Mail: [pensions@haverling.gov.uk](mailto:pensions@haverling.gov.uk)  
Web: [www.haverling.gov.uk](http://www.haverling.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.**



# Haverling

L O N D O N   B O R O U G H

## **FUNDING STRATEGY STATEMENT**

**REVISED NOVEMBER 2008**

## **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 ensure that sufficient resources are available to meet all liabilities as they fall due.

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

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

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

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

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

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

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

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 19<sup>th</sup> 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.



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

**STATEMENT OF INVESTMENT  
PRINCIPLES**

**REVISED MAY 09**

## 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 ten Principles of Investment Management contained in the CIPFA document "Principles for Investment Decision Making in the Local Government Pension Scheme in the UK" published in April 2002.

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

- Prudence – the impact on the margins included in the actuarial funding basis and the need for the actuary to adopt a prudent approach.
- Affordability – the impact on the level of Employer contributions in the longer term.
- Stability – the extent to which Employer contributions vary between actuarial valuations and the need to minimise such variations.
- Stewardship – the impact of the investment strategy on reaching target funding levels and the associated risks involved.

**Asset Allocation**

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

	<b>Column 1</b>	<b>Column 2</b>
	<b>current</b>	<b>target</b>
	<b>%</b>	<b>%</b>
Property	10	10
UK Equities	30	33
Global Equities	30	27
Fixed Interest Gilts	}	5
Index Linked Gilts	} 30	5
Corporate Bonds	}	15
Alternatives	0	5

The asset allocation in column one represents the asset allocation as at November 08. The asset allocation in column two represents the Pensions Committee target allocation and is subject to review pending further investigation into effective ways for gaining access to alternative investments and a return to less volatile market conditions.

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 for individual asset classes are:

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



## Choosing Investments

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

At the time of writing, the Fund is undergoing changes to its structure to align with the new benchmark allocation. 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:

<b>Mandate (% of fund awarded)</b>	<b>Manager</b>	<b>Tactical Benchmark</b>	<b>Target</b>
Property (10%)	UBS	HSBC All balanced (property) Fund's median	To outperform the benchmark
UK Equities (30%)	Standard Life	FTSE All Share	+2% net of fees
Global Equities (30%)	Alliance Bernstein	MSCI All Countries Index	+2.5% net of fees
Investment grade bonds (25%)	Royal London Asset Management	Composite	+0.75% net of fees
Alternatives (5%)	Not appointed at time of review		

The Global High Yield Bond mandate with Western Asset Management was terminated on the 1<sup>st</sup> August 2008 and all proceeds are being directed to Alliance Bernstein for investment in Global Equities. The Pensions Committee were aiming to have invested in an Alternatives 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.

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.

## **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 advice<sup>1</sup> 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 Audit Commission. The financial year end is 31<sup>st</sup> March.

**The Historic Position of Fund**

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

- The reduction in the funding level to 75% of liabilities as a result of government regulations prior to the introduction of the community charge;
- The cost of the redundancy programme in the mid 1990's.

*(Note that since 1998 redundancies and early retirements are a charge on departmental cost centres and external employers rather than the Pension Fund).*

- Overall investment returns since 1998 falling short of those anticipated in the funding strategy adopted from time to time.
- Longevity improving at a faster rate than anticipated.

At the last triennial valuation (at 31<sup>st</sup> 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](http://www.havering.go.uk) (Within 'Council and Democracy', 'About council tax and our finances', '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.

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

## **Review**

- The investment strategy is reviewed by the Pensions Committee, every three years following the actuarial valuation results and informally on an annual basis.
- The current review is based on the Actuarial Valuation 2007 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**

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 revised strategy is intended to balance the need to achieve sufficient long term returns without taking an excessive amount of risk. Risk is controlled by spreading Equity exposure more widely outside the UK, retaining allocations to Property and Bond investments and implementing a new allocation to Alternative investments.

The structure modelling which formed part of the 2008 Strategy Review indicated that the revised strategy had a total risk of approximately 14% compared to the Fund's liabilities. This means that the assets are expected to move within the range -14% to +14% relative to the liabilities in two out of every three years.

The allocation to growth assets following the review is: 75% in a mixture of equities, property and alternative assets with the remaining 25% in low volatility investment grade 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

## **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.'

### **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](http://www.havering.gov.uk) (within 'Council and Democracy', 'About council tax and our finances', '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](mailto: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 in November 2008 and is available as an appendix to this statement.



**STATEMENT OF COMPLIANCE**

<b>MYNER'S PRINCIPLES</b> <b>(Additions to the original principles below are underlined)</b>	<b>HAVERING POSITION</b>
<p>2. <b>Clear Objectives</b> Trustees should set out an overall investment objective for the fund that:</p> <ul style="list-style-type: none"> <li>• represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employer(s) and employees; and</li> <li>• takes account of their attitude to risk specifically their willingness to accept underperformance due to market conditions.</li> </ul> <p>Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pension's funds, or to a market index.</p>	<p>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.</p> <p><b>Summary</b> Full compliance</p>
<p>3. <b>Focus on asset allocation</b> Strategic asset allocation decisions 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 objective. Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity. Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds.</p>	<p>Review of Asset Allocation done periodically/ annually. Investment Advisers lead on the review. Fund has formulated its own asset allocation based on identified liabilities particular to the fund.</p> <p>A full investment strategy review has been carried out following the actuarial valuation results in 2007. Training on Alternative investments has been given to Committee members and a strategic allocation of funds has been made to this asset class.</p> <p><b>Summary</b> Full compliance</p>

**STATEMENT OF COMPLIANCE**

	<b>MYNER'S PRINCIPLES</b> <b>(Additions to the original principles below are underlined)</b>	<b>HAVING POSITION</b>
4.	<p><b>Expert advice</b>  <u>Funds should contract separately for actuarial, strategic asset allocation and fund manager selection</u> advice <u>and these contracts</u> should be opened to separate competition. The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.</p>	<p>Contracts have been awarded separately and two advisors appointed – Investment advisor and Actuarial Advisor.</p> <p><b>Summary</b> Full compliance</p>
5.	<p><b>Explicit mandates</b>  Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:</p> <ul style="list-style-type: none"> <li>• an objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances;</li> <li>• the manager's approach in attempting to achieve the objective; and</li> <li>• clear timescale(s) for <u>performance</u> measurement and evaluation.</li> </ul> <p>The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the fund.</p> <p>Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the</p>	<p>Explicit mandates with specific benchmarks and targets over a 3 year rolling period are detailed in the SIP.</p> <p>Trustees do not permit soft commissions. Equity managers report periodically on transaction costs.</p> <p><b>Summary</b> Majority compliance</p> <p><b>Action</b> Training will be considered for the Committee members relating to transaction-related costs commencing with self assessment. Otherwise compliant.</p>

**STATEMENT OF COMPLIANCE**

	<b>MYNER'S PRINCIPLES</b> <b>(Additions to the original principles below are underlined)</b>	<b>HAVERING POSITION</b>
	options open to them in respect of these costs, and should have an active strategy – whether through direct financial incentives or otherwise – for ensuring that these costs are properly controlled without jeopardising the fund's other objectives. Trustees should not, without good reason, permit soft commissions to be paid in respect of their fund's transactions.	
6.	<p><b>Activism</b> Trustees should comply with the <u>Institutional Shareholders Committee statement of principles on the responsibilities of institutional shareholders and agents, and ensure that the principles are incorporated into fund managers' mandates.</u> In line with the principles, trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.</p>	<p>Fund managers are instructed to vote in accordance with their proxy voting policies. These policies have been reviewed by Havering. Voting activity is reported on an exceptions basis and considered by the Investment Sub-Committee.</p> <p><b>Summary</b> Full compliance</p>
7.	<p><b>Appropriate benchmarks</b> Trustees should:</p> <ul style="list-style-type: none"> <li>explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies;</li> <li>if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection;</li> </ul>	<p>The Fund in aggregate has a liability related benchmark (strategic benchmark). However for individual mandates, the fund managers have a benchmark (tactical benchmark) and performance target that may be based on broad indices or composites.</p> <p>This was considered as part of the full investment strategy review following the 2007 actuarial valuation.</p> <p>The Committee, when setting the investment strategy, took the</p>

**STATEMENT OF COMPLIANCE**

<b>MYNER'S PRINCIPLES</b> <b>(Additions to the original principles below are underlined)</b>	<b>HAVING POSITION</b>
<ul style="list-style-type: none"> <li>consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and</li> </ul> <p>where they believe active management has the potential to achieve higher returns, set both target and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.</p>	<p>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.</p> <p><b>Summary</b> Full compliance</p>
<p>8. <b>Performance measurement</b> Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees. They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.</p> <p>Regulations that came into force on 30 December 2005 introduced a change that required that <u>the SIP should disclose the ways in which risks are to be measured and managed</u> (rather than simply disclosing a policy on risk)</p>	<p>Performance measurer reports to Committee annually. The investment adviser monitors and reports quarterly on performance, personnel, process and organisational issues at 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. The SIP has been updated to reflect this.</p> <p>Annual Review of the adviser also takes place.</p> <p>Committee performance is reviewed as part of an 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> <p><b>Summary</b> Full compliance</p>

**STATEMENT OF COMPLIANCE**

	<b>MYNER'S PRINCIPLES</b> <b>(Additions to the original principles below are underlined)</b>	<b>HAVING POSITION</b>
9.	<p><b>Transparency</b></p> <p>A strengthened Statement of Investment Principles should set out:</p> <ul style="list-style-type: none"> <li>• who is taking which decisions and why this structure has been selected;</li> <li>• the fund's investment objective;</li> <li>• the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;</li> <li>• the explicit mandates given to all advisers and managers (including objective, benchmark, risk parameters, clear timescales of evaluation ; and</li> <li>• the nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.</li> </ul>	<p>The SIP has been reviewed and updated as at October 08 and now complies with a strengthened statement.</p> <p><b>Summary</b> Full compliance</p>
10.	<p><b>Regular reporting</b></p> <p>Trustees should publish their Statement of Investment Principles and the results of their monitoring of their own performance, and that of advisers and managers. They should send key information from these annually to members of these funds, <u>as well as posting this on a fund website</u>, including an explanation of why the fund has chosen to depart from any of these principles. <u>It is good practice for funds with more than 5,000 members to have a website dedicated to the fund.</u></p>	<p>The SIP and this statement of compliance are published on the Council's web site.</p> <p>Performance monitoring reports are also published on the Council's website.</p> <p>Key information including performance, SIP and the review process is communicated to members annually in the Pension Fund Leaflet which is distributed with the Annual Benefit Statements.</p>

## STATEMENT OF COMPLIANCE

<b>MYNER'S PRINCIPLES</b> (Additions to the original principles below are underlined)	<b>HAVERING POSITION</b>
	<p><b>Summary</b> Majority compliance</p> <p><b>Action</b> Although a dedicated Web site is not available information is available on the council's own website, however views will be sought from relevant stakeholders on the issue of a dedicated website.</p>



## PENSIONS COMMITTEE

3 November 2009

## REPORT

<b>Subject Heading:</b>	<b>REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES AND THE FUNDING STRATEGY STATEMENT</b>
<b>Report Author and contact details:</b>	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: Debbie.ford@havering.gov.uk
<b>Policy context:</b>	Regulation 35 of the LGPS (Administration) Regulations 2008 and Regulation 9A of the LGPS (Management and Investment of Funds) Regulations 1998 requires an administrative authority to keep these documents under review
<b>Financial summary:</b>	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 undertakes a review of the Funding Strategy Statement (FSS) and the Statement of Investment Principles (SIP). This report sets out how the review was undertaken and highlights where or if changes were necessary.

**RECOMMENDATIONS**

That the committee:

1. Consider and agree to no proposed amendments to the FSS.
2. Consider and agree to no proposed amendments to the SIP.
3. Consider and agree to the administrative authority's position in respect of reporting compliance against the Myner's investment principles.

**REPORT DETAIL**

1. LGPS (Administration) Regulations 2008 Regulation 35 states that the administrative authority must keep the FSS under review.
2. LPGA (Management and Investment of Funds) Regulations Regulation 9A states that a SIP must be revised in accordance with any material change in their policy. The regulations also state that administering authority must prepare and publish a statement of the principles governing their decisions about investments (this is known as the Myner's principles)
3. Funding Strategy Statement (FSS)
  - a) This was last reviewed in November 08 following the Investment Strategy Review.
  - b) The Fund's actuary was consulted in October 09 and no changes were suggested at this time. The FSS is attached as Appendix A.
4. Statement of Investment Principles (SIP)
  - a) This was last reviewed in November 08 following the investment Strategy Review, which resulted in some restructuring to the Fund.
  - b) Since November 08 some of the intended restructuring had yet to be implemented in light of the market conditions and unprecedented volatility. In May 09 at a Special Pensions Committee members agreed, in consultation with the funds investment advisor, to amend the SIP to provide members with the flexibility of temporarily deviating from the long term strategy.
  - c) In July 09 the other employers in the fund were notified of the changes made in May to the SIP and no feedback was received.
  - d) As the intended restructuring is now being progressed and no material changes have taken place since May 09 it is proposed that no further revisions are made to the SIP at this stage. The May 09 version of the SIP is attached as Appendix B.
5. Myner's Principles



- a) The Pension Fund publishes the degree of compliance with the Myner's ten investment principles as an attachment to the SIP and this was last reviewed in November 08.
- b) In November 08 the government published a second set of six investment principles. These new six principles have yet to be formally adopted by Regulations. CIPFA are in the process of publishing guidance on how to prepare the compliance statement against the new six principles and this is anticipated to be released early December 09.
- c) It is proposed that the Myner's compliance statement is reviewed against the new six principles once the CIPFA guidance has been released. Compliance against the new six principles will have to be published with the Annual Report for 2009/10.
- d) Attached as Appendix C is the Statement of compliance against the current ten Myner's Principles as published in November 08.

## IMPLICATIONS AND RISKS

### **Financial implications and risks:**

There are no implications arising directly, however the review will ensure that the Pension Fund is both compliant and reduces the financial commitment on the General Fund as far as possible.

### **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

2008/2009 Statement of Accounts  
Statement of Investment Principles (May 09 )  
Funding Strategy Statement (Nov 08)  
Governance Compliance Statement (Nov 08)  
Communications Strategy (Nov 08)



## **LONDON BOROUGH OF HAVERING PENSION FUND**

### **Funding Strategy Statement**

#### **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 19<sup>th</sup> 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 formally 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 formally 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.





**Havering**  
LONDON BOROUGH

# **STATEMENT OF INVESTMENT PRINCIPLES**

**REVISED MAY 2009**

## **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 ten Principles of Investment Management contained in the CIPFA document "Principles for Investment Decision Making in the Local Government Pension Scheme in the UK" published in April 2002.

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



- Prudence – the impact on the margins included in the actuarial funding basis and the need for the actuary to adopt a prudent approach.
- Affordability – the impact on the level of Employer contributions in the longer term.
- Stability – the extent to which Employer contributions vary between actuarial valuations and the need to minimise such variations.
- Stewardship – the impact of the investment strategy on reaching target funding levels and the associated risks involved.

### Asset Allocation

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

	<b>Column 1</b>	<b>Column 2</b>
	<b>current</b>	<b>target</b>
	<b>%</b>	<b>%</b>
Property	10	10
UK Equities	30	33
Global Equities	30	27
Fixed Interest Gilts	}	5
Index Linked Gilts	} 30	5
Corporate Bonds	}	15
Alternatives	0	5

The asset allocation in column one represents the asset allocation as at November 08. The asset allocation in column two represents the Pensions Committee target allocation and is subject to review pending further investigation into effective ways for gaining access to alternative investments and a return to less volatile market conditions.

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 for individual asset classes are:

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

### **Choosing Investments**

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

At the time of writing, the Fund is undergoing changes to its structure to align with the new benchmark allocation. 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:

<b>Mandate (% of fund awarded)</b>	<b>Manager</b>	<b>Tactical Benchmark</b>	<b>Target</b>
Property (10%)	UBS	HSBC All balanced (property) Fund's median	To outperform the benchmark
UK Equities (30%)	Standard Life	FTSE All Share	+2% net of fees
Global Equities (30%)	Alliance Bernstein	MSCI All Countries Index	+2.5% net of fees
Investment grade bonds (25%)	Royal London Asset Management	Composite	+0.75% net of fees
Alternatives (5%)	Not appointed at time of review		

The Global High Yield Bond mandate with Western Asset Management was terminated on the 1<sup>st</sup> August 2008 and all proceeds are being directed to Alliance Bernstein for investment in Global Equities. The Pensions Committee were aiming to have invested in an Alternatives 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.

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.

## **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 advice<sup>1</sup> 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 Audit Commission. The financial year end is 31<sup>st</sup> March.

### **The Historic Position of Fund**

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

- The reduction in the funding level to 75% of liabilities as a result of government regulations prior to the introduction of the community charge:
- The cost of the redundancy programme in the mid 1990's.

*(Note that since 1998 redundancies and early retirements are a charge on departmental cost centres and external employers rather than the Pension Fund).*

- Overall investment returns since 1998 falling short of those anticipated in the funding strategy adopted from time to time.
- Longevity improving at a faster rate than anticipated.

At the last triennial valuation (at 31<sup>st</sup> 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](http://www.havering.go.uk) (Within 'Council and Democracy', 'About council tax and our finances', 'Havering Pension Fund'). This outlines the method by which the Fund aims to return to an acceptable level of funding. This is expected to

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

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**

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 revised strategy is intended to balance the need to achieve sufficient long term returns without taking an excessive amount of risk. Risk is controlled by spreading Equity exposure more widely outside the UK, retaining allocations to Property and Bond investments and implementing a new allocation to Alternative investments.

The structure modelling which formed part of the 2008 Strategy Review indicated that the revised strategy had a total risk of approximately 14% compared to the Fund's liabilities. This means that the assets are expected to move within the range -14% to +14% relative to the liabilities in two out of every three years.

The allocation to growth assets following the review is: 75% in a mixture of equities, property and alternative assets with the remaining 25% in low volatility investment grade 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

## **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.'

## **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](http://www.havering.gov.uk) (within 'Council and Democracy', 'About council tax and our finances', '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](mailto: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 in November 2008 and is available as an appendix to this statement.

**STATEMENT OF COMPLIANCE**

	<b>MYNER'S PRINCIPLES</b>	<b>HAVERING POSITION</b>
1.	<p><b>Effective decision-making</b> Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.</p> <p>Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Funds with more than 5,000 members should have access to in-house investment expertise equivalent at least to one full-time staff member who is familiar with investment issues. Trustees should also be paid, unless there are specific reasons to the contrary.</p> <p>It is good practice for trustee boards to have an investment subcommittee to provide the appropriate focus. The chair of the board should be responsible for ensuring that trustees taking investment decisions are familiar with investment issues and that the board has sufficient trustees for that purpose. For funds with more than 5,000 members, the chair of the board and at least one-third of trustees should be familiar with investment issues (even where investment decisions have been delegated to an investment subcommittee).</p> <p>Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan.</p>	<p>Investment Adviser appointed to advise on investment decisions.</p> <p>Pension Fund Accountant provides in house support to trustees.</p> <p>Quarterly meetings with Fund Managers provide close monitoring of their investment decisions.</p> <p>Structured training of Members ensures that Members are proficient in investment issues. The Council incorporates training within its forward looking business plan for the fund. Forward looking plan presented at first committee meeting of the financial year.</p> <p>Members of the Pensions Committee expenses are reimbursed in line with the council's constitution as laid down in part 6 'Members Allowance Scheme'</p> <p>Policy to ensure slow turnover of Pension Committee Members facilitates continuity and helps to maintains expertise within the Committee.</p> <p><b>Summary</b> Full Compliance</p>

**STATEMENT OF COMPLIANCE**

	<b>MYNER'S PRINCIPLES</b>	<b>HAVERING POSITION</b>
2.	<p><b>Clear Objectives</b> Trustees should set out an overall investment objective for the fund that:</p> <ul style="list-style-type: none"> <li>• represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employer(s) and employees; and</li> <li>• takes account of their attitude to risk specifically their willingness to accept underperformance due to market conditions.</li> </ul> <p>Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pensions funds, or to a market index.</p>	<p>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.</p> <p><b>Summary</b> Full compliance</p>
3.	<p><b>Focus on asset allocation</b> Strategic asset allocation decisions 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 objective. Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity. Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds.</p>	<p>Review of Asset Allocation done periodically/ annually. Investment Advisers lead on the review. Fund has formulated its own asset allocation based on identified liabilities particular to the fund.</p> <p>A full investment strategy review has been carried out following the actuarial valuation results in 2007. Training on Alternative investments has been given to Pension Committee members and a strategic allocation of funds has been made to this asset class.</p> <p><b>Summary</b> Full Compliance.</p>

## STATEMENT OF COMPLIANCE

	MYNER'S PRINCIPLES	HAVERING POSITION
4.	<p><b>Expert advice</b> Funds should contract separately for actuarial, strategic asset allocation and fund manager selection advice and these contracts should be opened to separate competition. The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.</p>	<p>Contracts have been awarded separately and two advisors appointed – Investment adviser and Actuarial Adviser.</p> <p><b>Summary</b> Full compliance</p>
5.	<p><b>Explicit mandates</b> Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:</p> <ul style="list-style-type: none"> <li>• an objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances;</li> <li>• the manager's approach in attempting to achieve the objective; and</li> <li>• clear timescale(s) for performance measurement and evaluation.</li> </ul> <p>The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the fund.</p> <p>Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy – whether through direct financial incentives or otherwise – for ensuring that these costs are properly controlled without jeopardising the fund's other objectives. Trustees should not, without good reason, permit soft commissions to be paid in respect of their fund's transactions.</p>	<p>Explicit mandates with specific benchmarks and targets over a 3 year rolling period are detailed in the SIP.</p> <p>Trustees do not permit soft commissions. Equity managers report periodically on transaction costs.</p> <p><b>Summary</b> Majority compliance</p> <p><b>Action</b> Training will be considered for the Pensions Committee relating to transaction-related costs commencing with self assessment. Otherwise compliant.</p>

## STATEMENT OF COMPLIANCE

	MYNER'S PRINCIPLES	HAVERING POSITION
6.	<p><b>Activism</b> Trustees should comply with the Institutional Shareholders Committee statement of principles on the responsibilities of institutional shareholders and agents, and ensure that the principles are incorporated into fund managers' mandates. In line with the principles, trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.</p>	<p>Fund managers are instructed to vote in accordance with their proxy voting policies. These policies have been reviewed by Havering. Voting activity is reported on an exceptions basis and considered by the Investment Sub-Committee.</p> <p><b>Summary</b> Full compliance</p>
7.	<p><b>Appropriate benchmarks</b> Trustees should:</p> <ul style="list-style-type: none"> <li>• explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies;</li> <li>• if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection;</li> <li>• consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and</li> <li>• where they believe active management has the potential to achieve higher returns, set both target and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.</li> </ul>	<p>The Fund in aggregate has a liability related benchmark (strategic benchmark). However for individual mandates, the fund managers have a benchmark (tactical benchmark) and performance target that may be based on broad indices or composites.</p> <p>This was considered as part of the full investment strategy review following the 2007 actuarial valuation.</p> <p>The Committee, when setting the investment strategy, took 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.</p> <p><b>Summary</b> Full compliance</p>

**STATEMENT OF COMPLIANCE**

	<b>MYNER'S PRINCIPLES</b>	<b>HAVERING POSITION</b>
8.	<p><b>Performance measurement</b> Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees. They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.</p> <p>Regulations that came into force on 30 December 2005 introduced a change that required that the SIP should disclose the ways in which risks are to be measured and managed (rather than simply disclosing a policy on risk)</p>	<p>Performance measurer reports to Committee annually.</p> <p>The investment adviser monitors and reports quarterly 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. The SIP has been updated to reflect this.</p> <p>Annual Reviews take place of the Fund's adviser's.</p> <p>Pensions Committee performance is reviewed as part of an 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> <p><b>Summary</b> Full compliance</p>

## STATEMENT OF COMPLIANCE

	MYNER'S PRINCIPLES	HAVERING POSITION
9.	<p><b>Transparency</b> A strengthened Statement of Investment Principles should set out:</p> <ul style="list-style-type: none"> <li>• who is taking which decisions and why this structure has been selected;</li> <li>• the fund's investment objective;</li> <li>• the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;</li> <li>• the explicit mandates given to all advisers and managers (including objective, benchmark, risk parameters, clear timescales of evaluation; and the nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.</li> </ul>	<p>The SIP has been reviewed and updated as at November 2008 and complies with a strengthened statement.</p> <p><b>Summary</b> Full compliance</p>
10.	<p><b>Regular reporting</b> Trustees should publish their Statement of Investment Principles and the results of their monitoring of their own performance, and that of advisers and managers. They should send key information from these annually to members of these funds, as well as posting this on a fund website, including an explanation of why the fund has chosen to depart from any of these principles. It is good practice for funds with more than 5,000 members to have a website dedicated to the fund.</p>	<p>The SIP and this statement of compliance are published on the Councils web site.</p> <p>Performance monitoring reports are also published on the Council's website.</p> <p>Annual reviews of the fund's advisers are available on the Council's website.</p> <p>Key information including performance, SIP and the review process is communicated to members annually in the Pension Fund Leaflet which is distributed with the Annual Benefit Statements.</p> <p><b>Summary</b> Views were sought from fund members on the issue of a dedicated web site in the pension fund leaflet issued during Jan to March 2008, to which no views were received. The Council continues</p>



**STATEMENT OF COMPLIANCE**

	<b>MYNER'S PRINCIPLES</b>	<b>HAVERING POSITION</b>
		being majority compliant as the Council has set up a dedicated web page for the Pension Fund accessible from the Council's website. This can be found at <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> (Within 'Council and Democracy', 'About council tax and our finances', Havering Pension fund').





## PENSIONS COMMITTEE

3 NOVEMBER 2009

## REPORT

<b>Subject Heading:</b>	<b>PENSIONS ADMINISTRATION SERVICE</b>
<b>Report Author and contact details:</b>	Contact: Jeff Potter Designation: Head of Exchequer Services Telephone: (01708) 434139 E-mail address: Jeff.Potter@havering.gov.uk
<b>Policy context:</b>	The Council is required to review the work and performance of the Pensions Administration service to demonstrate governance of the Pension Fund
<b>Financial summary:</b>	There are no direct financial implications from this report as it is for information only.

### 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

This report details the work and performance of the Pensions Administration Service during the financial year 2008/2009 for information.

<b>RECOMMENDATIONS</b>
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1. That Members note the work and performance of the Pensions Administration Service during 2008/2009.

<b>REPORT DETAIL</b>
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**Background**

As at the start of the 2008/09 financial year there were 14,118 members of Havering's Pension Fund detailed as below;

Active Members employed by:	London Borough of Havering (includes Homes In Havering)	5,250+
	Havering College	255
	Havering Sixth form College	73
	Citizens Advice Bureau	2
	Morrisons	60
	May Gurney	2
	Sports & Leisure Management	127
	KGB Cleaning	1
	Catering for Education	0

Deferred Members 3,533

Pensioners 4,815

The Pensions Administration service consists of an establishment of 7.8 full-time equivalent posts (10 staff) including a part time temporary member of staff.

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

## Work Programme for 2008 / 2009

In addition to the on-going work of the section there were some key projects that were identified as part of the unit's work programme for 2008/2009;

- ❖ Continuation of the Pension Partnership with Redbridge including a communication project to produce a joint scheme booklet to reflect the new Pension Regulations.
- ❖ Implementation of the new pension regulations which came into effect on the 1<sup>st</sup> April 2008.
- ❖ Improving the efficiency of service processes by the use of 'Word' integration.
- ❖ Staff training and development on new legislation and subsequent system updates.
- ❖ Work to integrate payroll data to the pension system via a electronic interface.

There were also a number of unplanned pieces of work one of which was the preparation for the relocation of the Pensions Service including work on a document management solution for the unit prior to the move. Additionally, and as usual, there was also a number of unplanned reorganisations entailing retirement \ redundancy estimates.

## Contributions

I am pleased to report that all the employee and employer contributions due to the pension fund from each of the employers was paid on time and therefore there was no requirement to make any interest charges.

## Performance

In terms of the day to day functions of the service some of the key workload volumes are detailed below;

New Members	628
New members who subsequently opted out	207
Retirees (New Pensioners)	231
Estimates	362
Transfers (In & Out)	106
Refunds	41
New Deferreds	404
Deaths	141

Local performance indicators are attached at appendix A and you will notice that performance against targets has been mixed. Unfortunately the huge impact of the new regulations has necessitated delays in some of the less urgent day to day functions.

In addition to the above;

1. The close working relationship with the London Borough of Redbridge has continued and there have been a number of joint initiatives including the production of a joint scheme booklet to take into account the amendments to the regulations. This is now being recommended for adoption by other London Boroughs.
2. Havering is leading 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.
3. As part of the new legislation the Government (CLG) has introduced a three tier system for ill-health retirement. They have also requested annual returns on the revised three tier arrangement and the first was issued in January 2009.
4. As reported last year there have been a number of high profile court cases relating to part-timers historic rights to be members of the Pension Fund. Anyone potentially affected was advised to lodge their case with the employment tribunal. Havering has 24 cases lodged and this has caused a great deal of unplanned work for the Pensions Administration Service and Legal services. Work has been completed for the cases that have been heard and decided at tribunal. There are still outstanding cases that are being dealt with by the pension section, however, these are not on pension yet and therefore are being dealt with as time allows.

## IMPLICATIONS AND RISKS

### **Financial implications and risks:**

No financial implications arise, directly, from this report.

### **Legal implications and risks:**

No legal implications arise, directly, from this report

### **Human Resources implications and risks:**

No human resource implications arise, directly, from this report

### **Equalities implications and risks:**

None arise from this report.

## BACKGROUND PAPERS

### Background Papers List

None





## Pension Services Local Performance Indicators –2008/2009

Indicator	What is it an indicator of	Actual 2007/08	Actual 2008/09	Target 2008/09
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.	96.24%	95.67%	95%
The percentage of early retirement estimates processed within 15 working days	To produce estimates for early retirements i.e. ill-healths, redundancies and voluntary retirements within 15 working days of request. This indicator is particularly important to service clusters.	92.32%	91.82%	97%
The percentage of Notification of deferred benefits within 1 month	The percentage of deferred benefits calculated within 1 month of the employee leaving the scheme	86.51%	52.475%	90%
The percentage of refunds processed within 10 working days	The percentage of refunds of contributions processed upon request by former employees. This indicator is a standard used throughout the Local Government and will serve as a good benchmark.	90.24%	No longer monitored due to de-minimus numbers	
The percentage of joiners processed within 1 month of info received <b>AXIS</b>	The percentage of joiners processed upon receipt of necessary paperwork from payroll or admitted body.	Not captured	55.57%	88.%
The percentage of <b>nomination forms</b> processed within 10 working days of receipt <b>Indicator 38</b>	The % of nomination forms received, AXIS updated and member notified	Not captured	97.99%	95%
Accurate calculation of benefit figures	The accuracy of first time benefit calculations at the checking stage. A quality measure to ensure customers receive correct payments at the earliest opportunity. This indicator can be directly controlled by Pension staff.	98.087%	98.087%	98.5%

**Other tasks carried out by the pension group**

Letters	4589 + 5000+	
newsletters		
Service Credit Quotes (transfers in)		67
Cash Equivalent Transfer Values, payment received & updated		50
Inter Fund Adjustment's pay received & updated		59
Comparison of deferred benefits / Inter Fund Adjustment's		50
Cash Equivalent Transfer Values for divorce purposes		25
Added Years quotes		44
Membership notifications (statutory notices)		2273
Deaths		128
Change of hours		759
IFA out quotes		61
IFA out actuals		58
Opt outs to the scheme		10
Nomination records set up		174
Co habitee nominations (for the new incoming scheme)		2
Combined records		99
Maternity, paternity and Leave without pay cases		33



## PENSIONS COMMITTEE

3 November 2009

## REPORT

<b>Subject Heading:</b>	<b>REVIEW OF COMMUNICATION STRATEGY &amp; GOVERNANCE COMPLIANCE STATEMENT</b>
<b>Report Author and contact details:</b>	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: Debbie.ford@havering.gov.uk
<b>Policy context:</b>	Regulation 31 and 67 of the LGPS (Administration) Regulations 2008 requires an administrative authority to keep these documents under review
<b>Financial summary:</b>	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 funds reviewed Communication Strategy and Governance Compliance Statement and highlights where changes may be required.

## RECOMMENDATIONS

That the committee:

1. Consider and agree that no changes are required 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 Exchequer Services and no changes are necessary at this stage.
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 analysis 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, so it seems highly likely that there will be some changes in the future.

**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 complaint but where it is not the authority has to state why.**

- i) **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.*
- ii) **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.*

- iii) **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 for any proposed changes and will be published on the Council's website.

## 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

2008/2009 Statement of Accounts

Statement of Investment Principles (May 09)

Funding Strategy Statement (Nov 08)

Governance Compliance Statement (Nov 08)

Communications Strategy (Nov 08)







**Haverling**  
LONDON BOROUGH

**PENSION FUND**

**COMMUNICATION STRATEGY**

**(NOV 09)**

## **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 will establish 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.

### Abridged Report and Accounts

An abridged copy of the Fund's Report and Accounts is circulated to all Scheme members on an annual basis via a pension fund leaflet/booklet.

### Annual Newsletter

Newsletters are issued to members of the Fund, at least annually, the contents of which cover 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.

### 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.

**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.

**Non Joiner Campaigns**

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.

**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**

Fund Officers 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.

### **Ill-health Retirements**

“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.

### **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. 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 Exchequer 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 frequently.

### **Issues Meetings**

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.

### **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, make themselves 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, with the exception of the property fund manager who alternatively presents their information on a six monthly cycle.

## **OTHER BODIES**

### **Trade Unions**

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

### **Seminars**

Fund Officers regularly participate at seminars and conferences.

### **Data Protection**

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

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

### **Further Information**

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

**Write to us at:  
Pensions Service  
4<sup>th</sup> Floor, Mercury House  
Romford  
RM4 3DS**

**Tel: 01708 432192/432981  
Fax: 01708 432078  
E-Mail: [pensions@haverling.gov.uk](mailto:pensions@haverling.gov.uk)  
Web: [www.haverling.gov.uk](http://www.haverling.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.**



## **PENSION FUND**

# **GOVERNANCE COMPLIANCE STATEMENT**

**REVISED NOV 2009**

## 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:

<b>Conservative Group</b>	<b>Residents' Group</b>	<b>Independent Residents</b>
Robby Misir (Chairman) Eric Munday (V.Chairman) Melvin Wallace Robert Benham	Clarence Barrett Linda Van den Hende	Jeffery Tucker

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.



## 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

	<b>HAVERING POSITION</b>
<b>A.</b>	<p data-bbox="159 268 338 300"><b>PRINCIPLE</b></p> <p data-bbox="159 308 309 339"><b><u>Structure</u></b></p> <p data-bbox="159 379 1319 483">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 data-bbox="159 715 1290 850">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 data-bbox="159 1161 1196 1225">c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> <p data-bbox="159 1273 1319 1377">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 data-bbox="1346 379 2029 555">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 data-bbox="1346 603 2040 667">Sections 2 and 3 of the Governance Compliance Statement refer.</p>
	<p data-bbox="1346 715 2051 930">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 data-bbox="1346 978 1832 1010">There is no secondary committee.</p> <p data-bbox="1346 1050 1933 1114">Section 3 of the Governance Compliance Statement refers.</p>
	<p data-bbox="1346 1161 1973 1225">No secondary committee or panel has been established.</p>
	<p data-bbox="1346 1273 1973 1337">No secondary committee or panel has been established.</p>

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

PRINCIPLE	HAVERING POSITION
<p><b>B</b> <u><b>Representation</b></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"> <li>i) employing authorities (including non-scheme employers, e.g. admitted bodies);</li>   <li>ii) scheme members (including deferred and pensioner scheme members),</li>   <li>iii) where appropriate, independent professional observers, and</li>   <li>iv) expert advisors (on an ad-hoc basis)</li> </ul>	<p>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.</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>

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

PRINCIPLE	HAVERING POSITION
<p><b>C</b>    <b><u>Selection and role of lay members</u></b></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>
<p><b>D</b>    <b><u>Voting</u></b></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><b>Going forward</b> – 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><b>E</b>    <b><u>Training/Facility time/Expenses</u></b></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>Full compliance.</p> <p>Member's expenses and allowances are laid out in the Council's Constitution (Part 6).</p> <p>An annual training plan is drawn up at the start of each calendar year; consideration is given to prioritise training around the issues that may require decisions in the forthcoming year.</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>Full compliance.</p> <p>As above.</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>As above. An annual training plan is drawn up at the start of each calendar year and agreed by members of the Pensions Committee. All committee members are offered training. A log is maintained and records attendance and training undertaken.</p> <p>Section 4 of the Governance Compliance Statement refers.</p>

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

PRINCIPLE	HAVERING POSITION
<b>F</b> <b><u>Meetings (frequency/quorum)</u></b> a. That an administering authority's main committee or committees meet at least quarterly	Full compliance. The Pension Committee meets five times a year and occasionally holds extra meetings if and when required.  Sections 2, 3 and 6 of the Governance Compliance Statement refer.
b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the committee sits.	No secondary committee or panel has been established.
c. That an administration authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which interests of key stakeholders can be represented.	Full compliance. Membership on the Pensions Committee has been extended for one representative to serve all Admitted/Scheduled bodies.  Until this role develops further the Council will continue with existing arrangements. The current forums for which stakeholders interests can be represented are: <ul style="list-style-type: none"> <li>• Through invitation to committee meeting</li> <li>• Written correspondence – employers are invited for comments via letters and email as part of any consultation process, including proposed policy changes.</li> <li>• 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.</li> </ul>

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	<b>PRINCIPLE</b>	<b>HAVERING POSITION</b>
<b>G</b>	<p><b><u>Access</u></b></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 published on the Council’s website.</p> <p>Section 8 of the Governance Compliance Statement refers.</p>
<b>H</b>	<p><b><u>Scope</u></b></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>
<b>I</b>	<p><b><u>Publicity</u></b></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

3 NOVEMBER 2009

## REPORT

<b>Subject Heading:</b>	<b>EXTENSION OF THE CONTRACT FOR PENSIONS ADVISORY SERVICES</b>
<b>Report Author and contact details:</b>	Contact: Mike Board Designation: Corporate Finance Manager Telephone: (01708) 432217 E-mail address: Mike.Board@havering.gov.uk
<b>Policy context:</b>	The contract provides for professional advice in connection with the Pension Fund's Investment strategy and performance monitoring.
<b>Financial summary:</b>	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	<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

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.

## RECOMMENDATIONS

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. Note the changes to the client team proposed by Hymans Robertson.

## 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 existing three year contract with Hymans Robertson ends on 31 March 2010. If the contract is not extended it will be necessary to arrange a re-tendering exercise to appoint an alternative provider. Officers believe that there are significant advantages to extending the contract.

These are considered below:

### 2 Benefits of Contract Extension

#### 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 at Pension Committee Meetings.

Preparation of material for officer/manager meetings.

Miscellaneous queries.

#### b) Service continuity and risk management

Hymans Robertson are currently managing the tendering process for the appointment of two new fund managers as approved at the Special Pensions Committee on 6 August 2009. Officers believe it would be impractical to change the pensions advisor during the course of this exercise and that it is essential to maintain service continuity throughout the selection process. Switching advisors is also likely to give rise to a duplication of costs. For these reasons it is recommended that the contract is extended for a period of one year pending the outcome of the fund manager selection process.

Service continuity and performance will continue to be maintained by the retention of the client team at Hymans Robertson which has developed a strong relationship with the Committee. Some changes are proposed to the client team (set out in para 3) which are supported by officers.

- c) Cashable savings arising from the avoidance of re-tendering.

The direct costs associated with re-tendering will be avoided until the end of the contract. This can be significant for major contracts which are subject to the Procurement Directive 2004/18/EC for Public Contracts.

- d) Non-cashable savings in officer time on re-tendering, project management and transition

The re-tendering process is in itself a time consuming process. Contract extension prevents officer time being diverted from other key activities. To carry out this activity over a four or five year cycle rather than three represents a more efficient use of resources.

### **3. Changes to the Client Team**

The following changes to Hymans Robertson's client team have been notified to officers.

- a. Alistair McKissack will return to his role as lead consultant for Havering.
- b. David Boyd (our current lead consultant) will take the role of Client Director. He will also be available for Alistair to call upon when his actuarial expertise is required.
- c. James Sheehan remains in his role of support analyst.

The client team are well known to members and officers and the proposed changes should ensure that service continuity and performance are maintained.

## 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 current manager selection process approved at the Special Pensions Committee on 6 August is expected to cost £35,000.

If the contract is not extended, it will be necessary to appoint a new advisor. In these circumstances there is a risk of additional costs being borne by the fund as the new advisor would have to take over the selection process or two contracts would have to be run in parallel for a period of time.

### **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

Correspondence from Hymans Robertson LLP re: contract extension



## PENSIONS COMMITTEE

03 November 2009

## REPORT

<b>Subject Heading:</b>	<b>REPORT TO PENSIONERS AND CONTRIBUTORS OF THE PENSION FUND 2008-2009</b>
<b>Report Author and contact details:</b>	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: Debbie.ford@havering.gov.uk
<b>Policy context:</b>	Provision of information to members of the Pension Fund in accordance with the administrative authorities communication strategy.
<b>Financial summary:</b>	The estimated cost of £1,800 for the printing of the Pension Fund Leaflet will be met by the Pension Fund.

### 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

This report includes an attachment of the draft version of a report, which will be in booklet form and seeks approval of its content and approval to send it to scheme members.

## RECOMMENDATIONS

1. That the Committee approve the 2008-2009 Report to Pensioners, Deferred Pensioners and Contributors.
2. That the Committee agree that the 2008-2009 Report to Pensioners, Deferred Pensioners and Contributors be sent to scheme members with the Annual Benefit Statements.

## REPORT DETAIL

1. Regulation 67 of the LGPS (Administration) Regulations 2008 administrative authorities are required to prepare and publish a policy statement concerning communications with members and employers. This must include how information and publicity is distributed about the pension fund to members. The production of this booklet complies with the administrative authorities communication statement.
2. Production of the booklet also complies with 'The Myner's Report', recommended principle of best practice (on regular reporting) in managing Pension Fund investments.
3. The attached report as shown in Appendix A will take the form of a short booklet which will be distributed with the Annual Benefit Statements.
4. The booklet was produced by Corporate Finance (Pensions) in consultation with the Pensions Administration section.

## IMPLICATIONS AND RISKS

### **Financial implications and risks:**

The estimated cost of the production of the booklets is approximately £1,800.00. This cost will be met from the Pension Fund.

### **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  
2008/2009 Statement of Accounts







# Your Pension

*Report to Pensioners,  
Deferred Pensioners and  
Contributors 2008 - 2009*

## **INTRODUCTION**

The Council operates a Pension Fund on behalf of its employees and pensioners under the provisions of the Local Government Pension Acts and Regulations, for the purpose of providing pension benefits to, largely, the employees of the Council. The Fund provides retirement pensions and lump sum retirement grants, death grants and spouse's or civil partners', nominated cohabiting partners' and children's' pensions. The Fund is financed by contributions from the Council, Council employees, other employers and members of the Fund, and by interest, dividends and other gains from investments.

## **MEMBERSHIP OF THE FUND**

The membership of the Fund reported on the balance sheet as at 31 March 2009 was as follows:

<b>31<sup>st</sup> March</b>	<b>2009</b>	<b>2008</b>
Contributing employees	5,723	5,803
Pensioners	4,746	4,587
Deferred pensioners	3,463	3,094

All Council employees who have a permanent or temporary contract of 3 months or more (except teachers, who are members of the Teachers Pension Scheme), 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.

## **CONTRIBUTIONS TO THE FUND**

With effect from 1<sup>st</sup> April 2008 instead of paying a standard contribution rate there are different contribution rates for different pay bands. These new rates have been designed to give more equality between the cost and benefits of scheme membership.

Pensions Committee 3 November 2009

Item 10

Appendix 'A'

The new rates are between 5.5 and 7.5% of your pensionable pay. The rate you pay depends on which pay band you fall into.

If you work part-time, your rate will be based on the whole time pay rate for your job, although you will only pay contributions on the pay you actually earn.

If the job that you are employed in requires you to work "term time" only, your contribution rate is based on your whole time salary, but is only grossed up by the number of weeks per year that you are paid.

**Here are the pay bands from 1<sup>st</sup> April 2009:**

<b>If your Whole Time Equivalent pay rate is:</b>	<b>Your contribution rate will be:</b>
Up to £12,600	5.5%
£12,601 and up to £14,700	5.8%
£14,701 and up to £18,900	5.9%
£18,901 and up to £31,500	6.5%
£31,501 and up to £42,000	6.8%
£42,001 and up to £78,700	7.2%
More than £78,700	7.5%

The pay bands will be adjusted each April in line with the cost of living.

If you pay tax and National Insurance, you will get tax relief on your contributions and pay a lower rate of National Insurance, so the actual cost to you is less.

If you were paying a protected rate of 5% before 1<sup>st</sup> April 2008, the rate you pay has been increased on a phased basis from 1<sup>st</sup> April 2008, bringing it into line with all other Scheme members by 1<sup>st</sup> April 2011 as shown in the following table:

<b>If you are were paying a protected rate of 5%</b>	
<b>From:</b>	<b>Your contribution rate will be:</b>
1 <sup>st</sup> April 2008	5.25%
1 <sup>st</sup> April 2009	5.5%
1 <sup>st</sup> April 2010	6.5% or (if lower) the relevant rate from the pay band table

1 <sup>st</sup> April 2011	The relevant rate from the pay band table
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The Council is required to make balancing contributions determined by the Fund's actuary (Hewitt Associates) to maintain the solvency of the Fund. The employers' contribution for the London Borough of Havering employees was 21.7% of salary in 2008/2009. The Council's annual contribution is reviewed every three years. The latest review was based on data as at 31<sup>st</sup> March 2007 and will effect employer contribution for 2008/09, 2009/10 and 2010/11.

## **MANAGEMENT OF THE FUND**

The overall direction of the Fund's Investment Strategy is delegated to the Council's Pensions Committee as detailed in the Governance Compliance Statement. The Pensions Committee also oversees the Fund's investment arrangements in line with regulations as detailed in the Statement of Investment Principles (SIP) and the Funding Strategy Statement (FSS).

The Group Director Finance and Commerce supports the Pensions Committee and is responsible for the internal administration arrangements regarding monitoring of the external investment managers' transactions and is also responsible for pensions administration.

The Fund appointed five active 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 investment advisors. The main changes resulted in the Fund aiming to reduce its asset allocation to Bonds and increase its allocation to Equities. Therefore the mandate with the Global Bonds manager (Westerns) was terminated in August 2008. The four managers remaining are Standard Life Investments (UK Equities Manager), Alliance Bernstein (Global Equities Manager), UBS Global Asset Management

Pensions Committee 3 November 2009

Item 10

Appendix 'A'

Property Manager) and Royal London Asset Management (Investment Grade Bond Manager). During 2009/10 the Fund is looking to appoint a passive Equities Manager and an Alternative Asset Manager.

## **GOVERNANCE COMPLIANCE STATEMENT**

On the 30<sup>th</sup> June 2007, a new regulation was added to The Local Government Pension Scheme Regulations 1997 to require LGPS administering authorities to prepare publish and maintain statements of compliance against a set of practice principles on scheme governance and stewardship.

The Governance Compliance statement is available on the Council's website at [www.havering.gov.uk](http://www.havering.gov.uk). (Within 'Council and Democracy', 'Finance', 'Havering Pension Fund')

## **INVESTMENT STRATEGY**

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

### **1. Statement of Investment Principles**

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.

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.

## 2. Funding Strategy Statement

The Council also produces a Funding Strategy Statement which encompasses the aims and purposes of the fund, and the overall investment strategy.

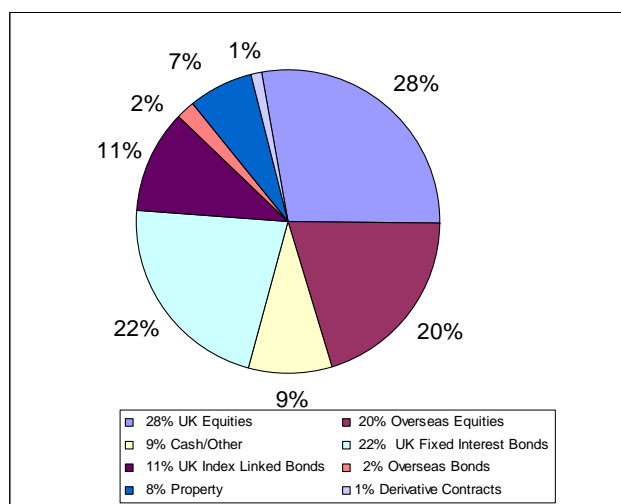
Both of these statements have been published on the Council's website at [www.havering.gov.uk](http://www.havering.gov.uk). (Within 'Council and Democracy', 'Finance', 'Havering Pension Fund')

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

## INVESTMENTS

The market value of the investments as at 31<sup>st</sup> March 2009 fell by 24.4% to £260.8 million compared to 2007/08 (excludes investment accruals).

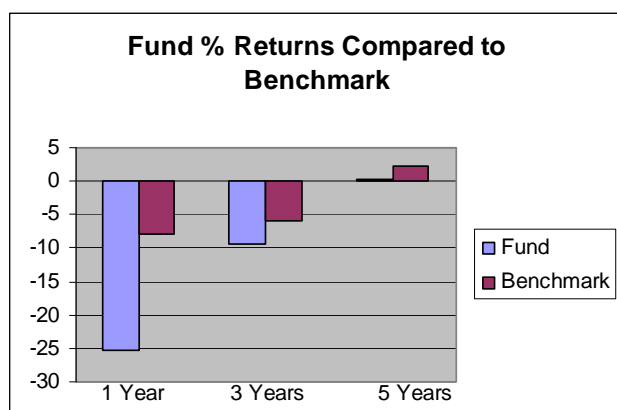
The pie chart below shows the breakdown of the Pension Fund in terms of asset class.



## INVESTMENT PERFORMANCE

The Council uses The WM Company to monitor the investment performance of the Fund and the Fund Managers. Each fund manager is given a performance target to achieve, compared to a benchmark. The table that follows shows the fund's performance against the Tactical Benchmark, which is the combination of each manager's individual benchmark and is shown over one, three and five years.

The total fund return for the year to 31<sup>st</sup> March 2009 at -25.4% under performed the Tactical Benchmark by -8.0%.



The fund has been exposed to unprecedented market volatility during 2008/09 in the wake of the credit crunch, sub prime mortgages and plummeting stock markets. Main detractors from performance were attributable to stock selection in UK and overseas equities.

**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.**

## EXTRACT OF ACCOUNTS

Financial statements were prepared in accordance with guidelines as set out in the new Statement of Recommended Practice (SORP) as revised in May 2007.

An extract from the Pension Fund Accounts is shown below:

### Net Asset Statement

	31/03/09 £'000	31/03/08 £'000
Market value of investments	262,624	349,054
Current assets less liabilities	28	(146)
<b>Net assets</b>	<b>262,652</b>	<b>348,908</b>

### Income and Expenditure Statement

#### *Income*

	2008/2009 £'000	2007/2008 £'000
Employee contributions	6,136	5,472
Employer contributions	20,411	19,491
Transfer values received	1,189	4,178
Income from investments	10,953	11,686
<b>Total</b>	<b>38,689</b>	<b>40,827</b>

#### *Expenditure*

Pensions and benefits	(23,720)	(22,719)
Transfer values paid	(1,347)	(1,660)
Administration expenses	(542)	(580)
Investment management Expenses	(1,185)	(1,153)
<b>Total</b>	<b>(26,794)</b>	<b>(26,112)</b>

#### **Surplus available for investment**

	<b>11,895</b>	<b>14,715</b>
Change in market value of investments	(98,151)	(31,955)
<b>Net increase/(decrease) in Fund</b>	<b>(86,256)</b>	<b>(17,240)</b>



Pensions Committee 3 November 2009

Item 10

Appendix 'A'

*Note: Transfer values are received or paid when a contributor joins the Fund from another pension scheme or leaves it, and opts to transfer their pension in or out.*

The Audit Commission carried out an audit of the Pension Fund Accounts and the audited accounts are available on the Council's web site at

[www.havering.gov.uk](http://www.havering.gov.uk). (Within 'Council and Democracy', 'Finance', 'Havering Pension Fund')

## **COMMUNICATION POLICY STATEMENT**

The Local Government Pension Scheme regulations require the administration authority to prepare and publish a written statement covering communications with scheme members, representatives, prospective members and employing authorities. This Statement has been published on the Council's website at [www.havering.gov.uk](http://www.havering.gov.uk). (Within 'Council and Democracy', 'Finance', 'Havering Pension Fund')

## **WHISTLE BLOWING**

The Pensions committee continue with the arrangements of complying with the Whistle Blowing Requirements of the Pensions Act as agreed on 7<sup>th</sup> June 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](http://www.havering.gov.uk) (Within 'Council and Democracy', 'Finance', 'Havering Pension Fund')

## **PENSION ADMINISTRATION**

The Council's pension administration section is responsible for all aspects of scheme membership including payment of

Pensions Committee 3 November 2009

Item 10

Appendix 'A'

benefits, processing joiners and leavers, administering scheme member and employer contribution records and administration of the Council's Additional Voluntary Contributions (AVC) scheme.

## **FURTHER SCHEME DETAILS**

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 Pensions Increase Review Orders (which is usually in line with the Retail Price Index). However if you retired on grounds of Redundancy or Efficiency before age 55, any increase is only 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. Generally a pension is also paid to the spouse, civil partner or nominated cohabitee of a member who dies after retirement, or with a deferred pension.

**Please note: you can only nominate a cohabitee if you were an active member of the LGPS on or after 1 April 2008, and you will need to complete the relevant form, obtainable from the pension's office.**

## **INFORMATION FOR CONTRIBUTING MEMBERS**

### **Annual Benefit Statements**

Annual benefit statements are produced by the Pensions Office for members of the scheme with more than 3 months

Pensions Committee 3 November 2009  
Item 10  
Appendix 'A'  
membership, which provide details of the member's own pension benefit entitlements.

### **Death Grant**

As a contributing member of the LGPS, should you die in service, a death grant is payable. This is currently equal to three years pensionable pay.

You are able to indicate who you would like to receive any death grant that may become payable in the event of your death by completing an Expression of Wish form.

By completing and returning this form, the Pensions Office can usually pay the Death Grant on production of the death certificate. If the form is not in place it is likely that the Authority will require your personal representatives to obtain Grant of Probate or Letters of Administration before any payment is made, which will cause a delay in payment.

If you have not completed an Expression of Wish form you can obtain one from the Pensions Office.

### **Ways to increase your retirement benefit**

- **Additional Voluntary Contributions (AVCs)**

Your pension benefits can be improved by paying AVCs into a Group AVC plan in order to build up an AVC Fund. Your AVC will be used to buy you a pension at the time of your retirement, or can in most cases be taken as additional tax free cash.

The Council has arrangements with both the Prudential and Standard Life who provide a range of AVC fund options. AVC contributions attract tax relief.

- **Purchasing Additional Pension**

Members of the scheme can now pay additional regular contributions (ARCs) to increase their pension in order to improve their retirement benefits. This has replaced the previous option of purchasing added membership.

Pensions Committee 3 November 2009

Item 10

Appendix 'A'

For those members who were buying additional membership, contracts will continue to be honoured until the contract is either completed or you decide to cease making payments.

### **Additional Life Cover**

In addition to the Death Grant provided by the scheme you can purchase additional life cover from Prudential. If you are interested in this option you should contact the Prudential direct. Contact details can be found at the back of this booklet.

*For further information on any of the above information for contributing members please contact the Pensions Office (contact details can be found at the back of this booklet).*

## **INFORMATION FOR DEFERRED PENSIONERS**

### **Deferred Annual Benefit Statements**

For your security, please remember to inform the Pensions Office in writing if you change your address.

### **Death Grant**

If you die before your pension is in payment a death grant is payable.

You are able to indicate who you would like to receive any death grant that may become payable in the event of your death by completing an Expression of Wish form.

By completing and returning this form, the Pensions Office can usually pay the Death Grant on production of the death certificate. If the form is not in place it is likely that the Authority will require your personal representatives to obtain Grant of Probate or Letters of Administration before any payment is made, which will cause a delay in payment.

If you have not completed an Expression of Wish form you can obtain one from the Pensions Office.

## **INFORMATION FOR PENSIONERS**

### **Re- employed Pensioners**

If you are receiving a pension from Havering, then take up further employment in an organisation that operates the LGPS, you must notify the Pensions Office immediately (contact details can be found at the back of this booklet).

### **National Fraud Initiative**

The Council actively participates in the Audit Commission National Fraud Initiative which identifies potential fraud via data matching information on the systems of various organisations including all local authorities.

### **Death Grant**

If you die under the age of 75 and have been receiving your pension for less than 5 years (10 years if you left employment or retired after 1 April 2008) a death grant is payable.

You are able to indicate who you would like to receive any death grant that may become payable in the event of your death by completing an Expression of Wish form.

By completing and returning this form, the Pensions Office can usually pay the Death Grant on production of the death certificate. If the form is not in place it is likely that the Authority will require your personal representatives to obtain Grant of Probate or Letters of Administration before any payment is made, which will cause a delay in payment.

If you have not been receiving your pension for 5 years and have not completed an Expression of Wish form you can obtain one from the Pensions Office.

## **INFORMATION FOR ALL MEMBERS AND PENSIONERS**

## **Pensions Sharing on Divorce**

Changes to the Welfare Reform Act now include Pension Benefits as an asset to be taken into account for Divorce purposes. Therefore, any cases lodged into Court will require certain information regarding your benefits. You will need to put your request for information in writing to the Pensions Office (contact details can be found at the back of this booklet).

## **CONTACT POINTS FOR FURTHER INFORMATION:**

### **Pensions' Administration**

Pensions Office  
Mercury House, 4<sup>th</sup> Floor  
Romford, RM1 3DS

Telephone 01708 432978 / 2981 / 2192

Email: [pensions@havering.gov.uk](mailto:pensions@havering.gov.uk)

### **Pension Fund Investment**

Debbie Ford  
Pension Fund Accountant  
Town Hall, Main Road  
Romford, RM1 3BB  
Telephone 01708 432569

Email: [debbie.ford@havering.gov.uk](mailto:debbie.ford@havering.gov.uk)

### **Other useful addresses:**

Local Government Pension Scheme website  
- [www.lgps.org.uk](http://www.lgps.org.uk)

The Pension Service website –  
[www.thepensionsservice.gov.uk](http://www.thepensionsservice.gov.uk)

The Prudential  
Telephone: 0845 607 0047

Pensions Committee 3 November 2009

Item 10

Appendix 'A'

[www.pru.co.uk/localgov](http://www.pru.co.uk/localgov)







**PENSIONS  
COMMITTEE**

**REPORT**

**03 NOVEMBER 2009**

**Subject Heading:**

**WHISTLE BLOWING REQUIREMENTS  
OF THE PENSIONS ACT**

**Report Author and contact details:**

Andrew Blake-Herbert  
Group Director Finance & Commerce  
(01708) 432218  
[andrew.blakeherbert@havering.gov.uk](mailto:andrew.blakeherbert@havering.gov.uk)

**Policy context:**

Pensions Act 2004

**Financial summary:**

**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 6 April 2005 the new whistle blowing requirements of the Pensions Act 2004 came into force. This extended whistle blowing 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 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 them 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 2009.

## RECOMMENDATIONS

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

## REPORT DETAIL

1. On 6 April 2005 the new whistleblowing requirements of the Pensions Act 2004 came into force. This extended whistle blowing 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 sets 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<sup>th</sup> April 2005, no possible breaches have been reported to the Chief Finance Officer. Consequently no reports have been made to the Pensions 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 providers (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.

Havering, via 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 Chief Finance Officer (CFO). 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 CFO 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 CFO 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 audit 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 triannual 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 of the whistleblowing requirements have been notified.
- e) There is a named officer to maintain record of all breaches, assessments and actions taken – the CFO.
- f) Staff have been 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 should any instances arise setting out action being taken and do a full report to the next available Committee.

### 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 Pension 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 3.2(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 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 Resource Implications and Risks:**

The Council has a whistle blowing/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 whistle blowing will be adhered to in relation to anonymity.

### **BACKGROUND PAPERS**

Pensions Regulator Code of Practice.