



Haverling

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

PENSIONS COMMITTEE

AGENDA

7.30pm

**Tuesday,
4 November 2008**

**Haverling Town Hall,
Main Road, Romford**

Members 7: Quorum 3

COUNCILLORS:

Conservative Group

(4)

Melvin Wallace - (Chairman)

Roger Ramsey - (V.Chairman)

Robby Misir

Robbie Benham

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:

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NOTES ABOUT THE MEETING

7. 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.**

8. 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.

9. 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 MEETINGS

To approve as a correct record the minutes of the meeting held on 16 September 2008, and authorise the Chairman to sign them.

5. REVIEW OF STATEMENT OF INVESTMENT PRINCIPLES AND THE FUNDING STRATEGY STATEMENT.**6. WHISTLE BLOWING REQUIREMENTS OF THE PENSIONS ACT.****7. PERFORMANCE OF THE PENSIONS ADMINISTRATION SERVICE 2007/8.****8. FLEXIBLE RETIREMENT AND OTHER DISCRETIONS WITHIN THE LOCAL GOVERNMENT PENSION SCHEME (LGPS).****9. THE ADMINISTRATION OF SIMPLY BETTER SERVICES LTD. TO HAVERING'S PENSION FUND.****10. REVIEW OF INVESTMENT ADVISER.****11. REVIEW OF PENSION FUND CUSTODIAN.**

Pensions Committee, 25 September 2008

12. **REVIEW OF PENSION FUND COMMUNICATION STRATEGY AND GOVERNANCE COMPLIANCE STATEMENT.**
13. **REPORT TO PENSIONERS AND CONTRIBUTORS OF THE PENSION FUND 2007-2008.**
14. **REVIEW OF PENSION FUND ACTUARY.**
15. **PENSION FUND ANNUAL REPORT – YEAR ENDED 31 MARCH 2008.**
16. **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 MEETING OF THE PENSIONS COMMITTEE
Havering Town Hall, Romford**

25 September 2008 (7.30pm – 9.40pm)

Present:

COUNCILLORS

Conservative Group Melvin Wallace (in the Chair), Robbie Benham, Robby Misir, and Roger Ramsey.

Residents' Group Clarence Barrett and Linda Van den Hende.

Trade Union Observer Brian Long (UNISON).

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.

There were no declarations of interest

6 MINUTES

The minutes of the Committee meeting held on 1 July 2008 and of the special meeting held on 17 July 2008 were agreed as a correct record and signed by the Chairman.

7 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 2008

The Chairman drew Committee Members attention to the Council officers' report and the three accompanying presentation briefings by Hymans Robertson (Pension Fund Investment Advisors), Standard Life (UK Equities Manager) and Royal London Asset Management (Investment Grade Bonds Manager).

Hymans Robertson was invited to summarise their opinion on market conditions and the contents of the two presentations briefings by the Asset Portfolio Managers.

The Committee heard that the net return of the Fund's investments for the quarter ending 30 June 2008 was -3.6%. This represented an underperformance of -1.9% against the combined tactical benchmark and an underperformance of -0.3%

against the strategic benchmark. The overall net return of the Fund's investments for the year to 30 June was -10.8%. This represented an underperformance of -6.1% against the annual tactical combined benchmark and an underperformance of -18.2% against the annual strategic benchmark.

The Committee was advised that the markets had seen unprecedented volatility since the latter half of 2007 and investor confidence fell sharply during the second quarter of 2008. In addition to the continuing problems arising from turmoil in the credit markets, investors were further unsettled due to the emergence of inflationary pressures.

The Committee **noted** the:

1. Performance monitoring report submitted by Hymans Robertson
2. Summary of the performance of the Pension Fund;
3. Quarterly reports provided by each investment manager; and
4. Analysis of internal cash balances.

PRESENTATION BY FUNDS UK EQUITIES MANAGER – Standard Life

The Committee received a presentation from Standard Life (UK Equities Managers). The value of assets managed by Standard Life had seen a significant drop in Quarter 2 and a further drop so far in Quarter 3. A number of factors had affected performance in Quarter 2 and were likely to continue to affect performance in Quarter 3. These were;

- The credit crisis;
- Lack of liquidity;
- Global economy weakening; and
- Bank of England not able to cut interest rates.

The Managers advised that the market was volatile and the main problem was one of liquidity. 2009 was likely to be tough but in the UK the economic situation was likely to improve in 2010. There was a significant divergence between the sectors with Standard Life being overweight in financials. Their investments had been aimed at achieving value from market weakness, rather than 'momentum' stocks.

The Committee noted the presentation and the Chairman thanked Standard Life.

Following Standard Life's presentation Members briefly took the Investment Manager's opinions of the presentation.

PRESENTATION BY THE FUNDS INVESTMENT GRADE BOND MANAGER – Royal London

The Committee received a presentation from Royal London (UK Investment Grade Bonds Managers). The value of the fund had decreased by 1.2% since March 2008, but since inception the fund value had increased by 10.8%. The Managers advised that so far in Quarter 3 there had seen a further drop in value. Royal London had underperformed against the benchmark for the quarter by -0.1% and

underperformed against the target for the quarter by -0.3%.

Royal London advised that the market was volatile and this had affected liquidity. The market in UK Investment Grade Bonds was basically flat in Quarter 2, and their performance had been affected because they were overweight in credit bonds and in financial services.

Royal London expected the market to be hit by a recession in 2009 but they expect the UK base rate to fall to 4.0%. The corporate sector would be hit by economic weakness, but credit bond valuations were attractive. There was exceptional value in corporate sector bonds.

The Committee noted the presentation and the Chairman thanked Royal London.

Following Royal London's presentation Members briefly took the Investment Manager's opinions of the presentation and expressed the view that Royal London should be more active.

8 REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES AND THE FUNDING STRATEGY STATEMENT

The Pension Fund has:

A Statement of Investment Principles (SIP) which explains the investment strategy, associated risks and other matters.

A Funding Strategy Statement (FSS) - this illustrates how the fund was operating to improve funding levels.

The last review of the SIP and the FSS was completed in December 06. It was now appropriate for reviews of these documents to take place having regard to the results of the 2007 triennial valuation (received March 2008) and the subsequent Investment Strategy review.

Over the last few months the Committee had been reviewing the current Investment Strategy and this had resulted in changes to the asset allocation and fund manager arrangements. As this was a material change the Authority was required to amend and publish a revised SIP.

The Committee agreed that the SIP needed general updating and amendment in the following areas:

- Fund Objective
- Investment Objective
- Asset Allocation
- Risk
- Social Environmental and Ethical Consideration.

Following the decision to redeem the investment managed by the Global High Yield Manager, the available funds were to be given to the Global Equity Manager to invest. The first two tranches of money had been paid but the final tranche of £7.5m

was due to be paid in October. In the light of the current state of the market the Committee agreed to hold the money on deposit and review the position at our next meeting on the 4 November.

Prior to the meeting the Committee received further training on Alternatives from Hymans Robertson. Having considered the training and the comments of the Investment Adviser and officers the Committee agreed to pursue the option of a diversified alternatives package, however, Hymans Robertson were asked to undertake further research to permit a greater understanding of how the various funds operate.

The committee noted that proposed changes made to the SIP and FSS will be reported at the next meeting on the 4 November.

9 PENSION FUND STATEMENT OF ACCOUNTS – YEAR ENDED 31 MARCH 2008.

The committee noted the accounts and a discussion followed regarding the Pension fund Annual Report.

The new Local Government Pension Scheme (Administration) Regulations 2007 which commenced from 1 April 2008 contained a requirement to publish a 'pension fund annual report'. This was to be published by no later than 1st December following the accounting year, therefore the report covering the 2007/08 reporting period should be published by the 1st December 2008.

The pension fund annual report, as a minimum must include the following items:

- a) The Trustees' report – this report would include information to explain how the scheme was managed and its financial development during the year;
- b) An Investment Report – This explained the policies on investments and the strategy for achieving its policies. This should also include comparisons against any benchmarks adopted including commentary on general economic and market conditions;
- c) A report of the arrangements made during the year for the administration of the fund;
- d) A statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund and disclosing the funding level (actuarial valuations and certificates);
- e) Current version of the governance compliance statement.
- f) The fund account and net asset statement with supporting notes and disclosures;
- g) An annual report dealing with –
 - The extent to which the authority and employing authorities in relation to which it is the administering authority have achieved any levels of performance set out in the pension administration strategy.
 - Other matters arising from its pension administration as it considers appropriate.
- h) Current version of the funding strategy statement;
- i) Current version of the statement of investment principles;

- j) Current version of the statement of policy concerning communications with members and employing authorities;
- k) Any other material which was considered appropriate

The accounts were still in draft form and should be signed off by the Audit Commission on 30 September, 2008.

Officers reported that we were due a £6,000 rebate from the Actuaries; this would be paid back into the Pension Fund,

Having considered the options available the Committee **agreed** that a single PDF file be created so the accounts can be published as a single document on the internet.

10 THE PENSIONS PANEL

Under the constitution the Pension Panel had the following powers:

- a To act and make decisions as a pensions panel consisting of the Group Director of Finance and Commercial, Assistant Chief Executive Human Resources and Assistant Chief Executive Legal and Democratic Services for the purposes of Stage 2 appeals within the Internal Dispute Resolution Procedure Regulations and exercising other discretions within the Local Government Pension Schemes
- b To implement the Council's early retirement, retirement and redundancy policies.

Following high level restructure the new Group Director of Finance & Commerce now had responsibility for Human Resources.

In the light of the change of circumstances the Committee **agreed** to recommend the Governance Committee to amend the constitution of the Pensions Panel as follows:

- To act and make decisions as a pensions panel consisting of the Assistant Executive Legal and Democratic Services, Head of Finance and Performance Head of Human Resources and for the purposes of Stage 2 appeals with Internal Dispute Resolution Procedure Regulations and exercising other discretions within the Local Government Pension Schemes.
- To implement the Council's early retirement, retirement and redundancy policies.



MEETING	DATE	ITEM
PENSIONS COMMITTEE	4 November 2008	5

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES AND THE FUNDING STRATEGY STATEMENT

SUMMARY

In line with Local Government Pension Scheme Regulations and good practice the Council with having regard to the 2007 Valuation report undertook a review of the Statement of Investment principles (SIP) and the Funding Strategy Statement (FSS). This report sets out how that review was undertaken and highlights where changes were required.

RECOMMENDATIONS

That the Committee:

1. Consider the issues that have been identified as needing to be included and amended in the FSS and SIP documents;
2. Agree the proposed amendment to the SIP;
3. Consider the Council's position in respect of compliance to the Myner's Principles.
4. Agree the proposed amendments to the FSS.

5. Agree to issue the revised versions of the SIP and FSS to relevant stakeholders for their comments.
6. Delegate to the Chair any actions necessary to incorporate any issues/comments from stakeholders

REPORT DETAIL

1. BACKGROUND

- 1.1. The last review of the SIP and FSS was completed in December 06. It is now appropriate that reviews of these documents take place having regard to the results of the 2007 triennial valuation (received March 2008) and the subsequent Investment Strategy Review.
- 1.2 Over the last six months the Committee together with the Funds Investment Adviser have been reviewing the investment strategy and this has resulted in changes to the asset allocation and fund manager arrangements.
- 1.3 Members at the Committee meeting on the 25 September discussed the main areas of the SIP that required amending. The funds investment advisers having incorporated the decisions agreed during the investment strategy process have proposed changes to the SIP. These changes can be seen in the track changes version attached as Appendix A.
- 1.4 In addition to the proposed changes suggested by the funds investment adviser general updating is required to the SIP in the following areas:
 - a) Pensions Committee – This will be updated to reflect the new representative of the other employers in the fund.
 - b) Number of meetings in the year the committee meets to be amended from four times to ...at least four times.
- 1.5 The Pension Fund publishes the degree of compliance with the Myner's Principles as an attachment in the SIP. Attached as Appendix B is the Statement of Compliance which shows the Fund's position in respect of compliance against the ten Myner's principles.
- 1.6 This illustrates that the Fund is compliant with the majority of the ten principles but needs to consider the following areas:
 - a) Principle No.5. Explicit Mandates.

This principle states that "...Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur....."

Action required for full compliance: Training to be arranged for committee members to receive a presentation on relevant transaction costs from each fund manager. This can be incorporated with the Fund Manager's quarterly performance review committee meeting at committee.

- b) Principle No.10. Regular Reporting.
This principle states that "...It is good practice for funds with more than 5,000 members to have a website dedicated to the fund".

Action required for full compliance: The Council continues being majority compliant as the Council has set up a dedicated web page for the Pension Fund accessible from the council's website. Views were sought from fund members on the issue of a dedicated web site in the pension fund leaflet that was issued during Jan – March 2008, to which none were received.

- 1.7 The Fund's Actuary have been consulted and the outcome of the 2007 Valuation and the Investment Strategy Review required no major changes to the FSS document other than some general updating which the actuaries have proposed in the track changes version attached as Appendix C.
- 1.8 Once the committee have agreed to the revisions of the SIP and FSS it is proposed that these documents will be sent to the fund's stakeholders for any views or comments. A summary of views or comments received can be passed to the chair for consideration and inclusion in the SIP and FSS documents.

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 arising directly.

Human Resource Implications and Risks:

None arising directly.

Equalities and Social Inclusion Implications and Risks:

There are no social inclusion implications in this report

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CHERYL COPPELL
Chief Executive

Background Papers

November 2008 version of the Statement of Investment Principles
November 2008 version of the Statement of compliance (Myners)
November 2008 version of the Funding Strategy Statement

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 199~~98~~ 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 at least annually. 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 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 ~~and currently set at 6%~~. Following the changes to the benefit structure of LGPS Schemes from 1 April 2008, workers previously paying contributions of 6% will pay banded rates between 5.5% and 7.5% depending on their level of full-time equivalent pay. Manual workers in employment before 1st April 1998 ~~who previously had~~ a protected 5% rate will be subject to transitional rates.

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

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

Pensions Committee

A dedicated group of Councillors (the “Pensions Committee”) has been set up to deal with the majority of the Fund’s investment issues. Major investment decisions will be referred for consideration to the Pensions Committee. The Pensions Committee is made up of elected representatives of The Council who each have voting rights and Trade Union 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 (the 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 Committee is set up under the Local Government Act so that, where necessary it can exercise decision-making powers. The Committee meets four times per year to hear reports from its officers, investment managers, actuary, investment consultant and performance measurement provider. Additional meetings are held as required in particular to ensure the appropriate Councillor training.

The Committee also receives and considers advice from executive officers of the Council and, as necessary, from its appointed external investment consultant (including specific investment advice), the actuary to the scheme 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: It was agreed at the then called Investment Committee Meeting of 4th April 2003 that the following be adopted as the Fund objective:~~

- ~~• 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 ensure that sufficient resources are available to meet all liabilities as they fall due.~~
- ~~• To manage employers' liabilities effectively.~~
- ~~• To maximise the return from investments within reasonable risk parameters.~~

~~For employee 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 agreed upon by the Pension Committee and the Scheme Actuary following the formal actuarial valuation of 2007. The funding position is monitored quarterly by the trustees and formerly reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.~~

- ~~• ensure that it has sufficient assets to pay pension benefits to scheme members as they fall due and;~~
- ~~• To set employer contribution rates at a level to attain 100% funding, as certified by the Fund's actuary, whilst keeping the employer contribution rate as low and as stable as possible.'~~

~~In order to lessen the burden on the employers within the Fund, the investment strategy is designed to achieve a higher return than the lowest risk strategy whilst maintaining a prudent approach to meet the underlying aims of the Fund.~~

Investment Objective

~~Following a review of the Investment Strategy in 2008, the 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 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 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 Committee have agreed upon the following benchmark allocation:

	%
<u>Property</u>	<u>- 10</u>
<u>UK Equities</u>	<u>- 33</u>
<u>Global Equities</u>	<u>- 27</u>
<u>Fixed Interest Gilts</u>	<u>- 5</u>
<u>Index-Linked Gilts</u>	<u>- 5</u>
<u>Corporate Bonds</u>	<u>- 15</u>
<u>Alternatives</u>	<u>- 5</u>

- ~~It was agreed at the then called Investment Committee Meeting of 17th December 2003 that the following be adopted as the Financial Investment Objective:~~

~~'To target 100% funding on an ongoing basis by investing to achieve a return on the overall Fund of long gilts +3.6% gross p.a. (long Gilts plus 3.0% net of fees) over a ten-year time horizon, thereby reducing the likelihood of an increase to the employers' future contribution.'~~

~~This is to be achieved by targeting:~~

~~Gilts + 1.0% p.a. in the Matching Fund (which comprises 30% of the Total fund)~~

~~Gilts + 4.5% p.a. in the Investment Fund (which comprises 70% of the Total Fund)~~

Asset Allocation

- ~~At the then called Investment Committee meeting on 17th December 2003, the following strategic asset allocation was approved:~~

	%
Property	10
Global High Yield Bonds	10
UK Equities	30
Global Equities	20
Fixed Interest Gilts }	
Index-Linked Gilts }	30
Corporate Bonds }	

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:

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

Choosing Investments

~~The general asset allocation was based on results taken from the Asset Liability study undertaken by the Fund's actuary. The detailed allocation was taken following advice from the Fund's investment consultant.~~

The Committee have appointed investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Committee have given the 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: The Committee appointed five investment managers to implement its chosen strategy. Investment targets have been set for each manager and they are measurable over a rolling three year period as follows:~~

Mandate (% of fund awarded)	Manager	Tactical Benchmark	Target
Property (10%)	UBS	HSBC All balanced (property) Fund's median	To outperform the benchmark
Global high Yield Bonds (10%)	Western Asset Management	Long Gilts	+ 3% gross of fees
UK Equities (30%)	Standard Life	FTSE All Share	+2% net of fees
Global Equities (3 20%)	Alliance Bernstein	MSCI All Countries Index	+2.5% net of fees
Investment grade bonds (25 30%)	Royal London Asset Management	C omposite	+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 1st August 2008 and all proceeds are being directed to Alliance Bernstein for investment in Global Equities. The Committee are aiming to have invested in an Alternatives mandate by the first quarter of 2009; the funds earmarked for this investment are currently with Royal London Asset Management invested in Index Linked Gilts.~~

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. ~~Western Asset management are remunerated by a management fee and administrative fees and expenses deducted from the returns on the fund, as specified within its' prospectus.~~

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 consultant;
- Reviewing investment manager performance against established benchmarks on a regular basis;
- Reviewing the 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 consultant. The Committee will also obtain written advice from the Investment Consultant 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 ~~Investment Fund or the Matching~~ Fund allocation is 5% or more than the strategic allocation the assets will be rebalanced back to 2.5% above the strategic asset allocation. 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 Committee will seek the written advice of the investment consultant 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 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 then called Investment 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 Investment 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 Consultant is responsible for:

- Advising on the investment strategy of the fund and its implementation;
- Advising on the selection of investment managers, and the custodian;
- Providing investment information, investment advice¹ and continuing education to the Investment Committee and the executive officers;
- Independent monitoring of the investment managers and their activities.

~~The Investment Consultant adviser is remunerated by way of time cost fees and fixed fees within an agreed annual budget, a fixed cost retainer that covers routine monitoring and routine maintenance tasks and by agreed fixed costs on a project specification basis. From time to time a project may be undertaken which is subject to time cost fees.~~

The Auditor

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

The Historic Position of Fund

The Fund is unlikely to be fully funded for several years. This has arisen for two main reasons.

- 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). In addition the withdrawal of tax relief on pension fund dividend income arising from the 1997 budget has been a further factor in delaying the achievement of full funding. The downturn in the value of equities has been a

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

~~further problem., although as at November 2007, the gap has almost been recovered.~~

At the last triennial valuation (at 31st March 2007~~4~~) the funding ratio was ~~685.3~~685.3%.

The Fund is obliged to prepare a Funding Strategy Statement (FSS), which is prepared by the Fund's actuary and published on the Council's web site. This outlines the method by which the Fund will return to an acceptable level of solvency. This is expected to be achieved by a combination of increased contributions to the Fund, and ~~achieving good long-term anticipated increased~~ investment returns following the implementation of the new investment strategy in 2008~~5~~.

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 Consultant~~Investment Consultant in 2008.

Reporting

The investment ~~performance of the manager 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 consultants, 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~~4~~ Actuarial Valuation and ~~a full review of investment strategy an Asset/Liability study~~ commissioned from the Fund's investment -consultant, the ~~Pension Committee then called Investment 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. diversify its investments with the objective of reducing the volatility of investment returns.~~

~~The balance of assets and anticipated returns was considered that in order to maintain the funding level the Fund would need to achieve returns equal to 1.8 per cent per annum above those on long-dated index-linked gilts. This target was viewed as consistent with the investment strategy of 70 per cent equities and 30 per cent bonds used as the basis of the 2004 Actuarial Valuation.~~

~~In order to reduce the volatility of investment returns, The allocation to growth assets following the review is it was decided retain the asset mix to 75% per cent in a mixture of equities, property and alternative assets with the remaining 25% per cent 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 ~~Pension then called Investment~~ 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 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, ~~while the, that~~ non-financial factors should not drive the investment process ~~to the detriment at the cost~~ of financial return of ~~n~~ the ~~Council's Pension~~ Fund, it is appropriate for the Investment Manager to take such factors into account when - considering particular investments. Therefore, the Pensions Committee is of the view that there should be non-interference with the short-term day-to-day decision making of the Fund Managers.

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, 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 Consultant 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.

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@haverling.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 (as further discussed in the CIPFA Principles for Investment Decision Making in the LGPS has been updated in December 2006 and is attached.

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	<p align="center">MYNER'S PRINCIPLES (Additions to the original principles below are underlined)</p>	<p align="center">HAVING POSITION</p>
<p>□</p>	<p>Effective decision-making Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. <u>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.</u></p> <p>Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. <u>Funds with more than 1,000 members should have access to in-house investment expertise equivalent at least to one full-time staff member who is familiar with investment issues.</u> 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. <u>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 1,000 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.</u></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>ension 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.</p> <p>Policy to ensure slow turnover of Pension Committee members facilitates continuity and helps to maintain expertise within the Committee.</p> <p>Forward looking plan presented at first committee meeting of the financial year.</p> <p>Summary Full Compliance</p>
<p>□</p>	<p>Clear Objectives Trustees should set out an overall investment objective for the fund that</p> <ul style="list-style-type: none"> 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 employers and employees; and 	<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 align="center">MYNER'S PRINCIPLES (Additions to the original principles below are underlined)</p>	<p align="center">HAVERING POSITION</p>
	<ul style="list-style-type: none"> takes account of their attitude to risk specifically their willingness to accept underperformance due to market conditions. <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>Summary Full compliance</p>
<p>Focus on asset allocation</p> <p>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 <u>has been carried out</u> following the actuarial valuation results in . <u>Training on Alternative investments has been given to Committee members and a strategic allocation of funds has been made to this asset class.</u></p> <p>Summary <u>Full Compliance</u></p>	<p>Deleted: is</p> <p>Deleted: due</p> <p>Deleted:</p>
<p>Expert advice</p> <p>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 advisor and Actuarial Advisor.</p> <p>Summary Full compliance</p>	<p>Deleted: Currently majority compliant.</p> <p>Action</p> <p>New ideas need to be reviewed for example Dynamic Asset Allocation mandates, as does the position with regard to alternative investment classes, which have become more mainstream tools for pension funds.</p>

	<p style="text-align: center;">MYNER'S PRINCIPLES (Additions to the original principles below are underlined)</p>	<p style="text-align: center;">HAVING POSITION</p>
<p><input type="checkbox"/> Explicit mandates 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"> • an objective, benchmarks and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances • the manager's approach in attempting to achieve the objective; and • clear timescales for performance measurement and evaluation. <p>The mandate and trust deed and rules should not include 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 1 year rolling period are detailed in the .</p> <p>Trustees do not permit soft commissions. Equity managers report periodically on transaction costs.</p> <p>Summary Majority compliance</p> <p>Action Training will be considered for the Committee members relating to transaction-related costs commencing with self assessment. otherwise compliant.</p>	
<p><input type="checkbox"/> Activism <u>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</u></p>	<p>Fund managers are instructed to vote in accordance with their proxy voting policies. These policies have been reviewed by having. Voting activity is reported on an exceptions basis and considered by the Investment Sub-Committee.</p> <p>Summary</p>	

	MYNER'S PRINCIPLES (Additions to the original principles below are underlined)	HAVING POSITION
	effectiveness of this strategy.	Full compliance
<input type="checkbox"/>	<p>Appropriate benchmarks Trustees should</p> <ul style="list-style-type: none"> explicitly consider, in consultation with their investment managers, 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; if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection; 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 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>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 () 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>Summary Full compliance</p>
<input type="checkbox"/>	<p>Performance measurement 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>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</p>

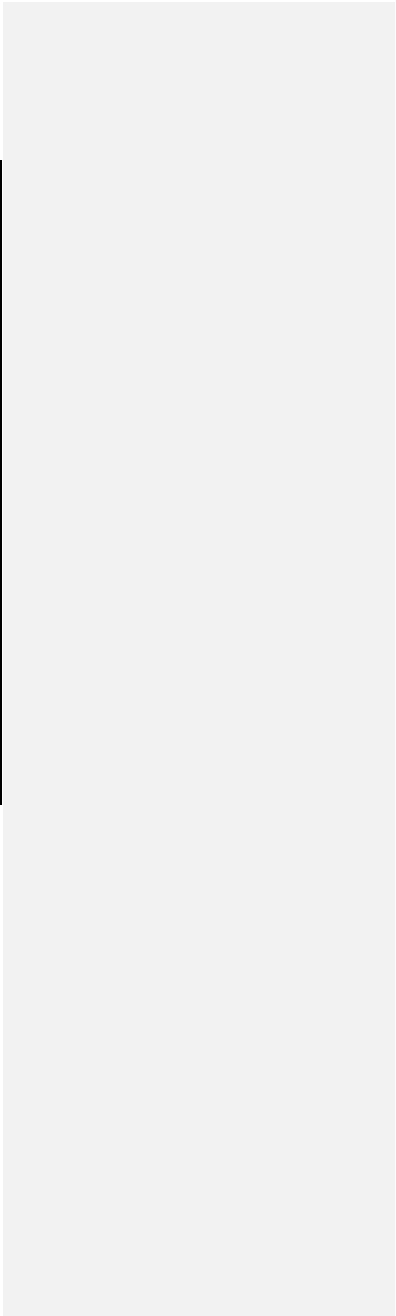
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	MYNER'S PRINCIPLES (Additions to the original principles below are underlined)	HAVING POSITION
	<p>Regulations that came into force on December introduced a change that required that <u>the should disclose the ways in which risks are to be measured and managed</u> rather than simply disclosing a policy on risk</p>	<p>delivering the required – net of fee return is measured quarterly in terms of the overall financial objective. The 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>Summary Full compliance</p>
<p>□</p>	<p>Transparency A strengthened statement of Investment principles should set out</p> <ul style="list-style-type: none"> • who is taking which decisions and why this structure has been selected; • the fund's investment objective; • the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at; • 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. 	<p>The has been reviewed and updated as at <u>October</u> and now complies with a strengthened statement.</p> <p>Summary Full compliance</p>

Deleted: December

	<p style="text-align: center;">MYNER'S PRINCIPLES (Additions to the original principles below are underlined)</p>	<p style="text-align: center;">HAVERING POSITION</p>
<p><input type="checkbox"/> Regular reporting 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, 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 1,000 members to have a website dedicated to the fund.</u></p>	<p>The I 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, I and the review process is communicated to members annually in the Pension Fund Leaflet which is distributed with the Annual Benefit Statements.</p> <p>Summary Majority compliance</p> <p>Action 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>	

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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 19th of the month following the month that it is paid by the member. The contributions to the Pension Fund are monitored and processed by the Pension Administration team. If contributions are received more than a month after payment is due, interest will be charged at the rate of 1% above the bank base rate.

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

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

2. Invest surplus monies in accordance with the regulations.

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

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

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

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

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

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

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

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

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

The Administering Authority monitors the funding position of the Fund on a quarterly basis, and the investment performance of the Fund on a monthly basis. The Statement of Investment Principles and Funding Strategy Statement will be 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~~has also~~ agreed

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.



MEETING	DATE	ITEM
PENSIONS COMMITTEE	4 November 2008	6

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: WHISTLE BLOWING REQUIREMENTS OF THE PENSIONS ACT.

SUMMARY

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.

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, 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 2007.

RECOMMENDATION

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

REPORT DETAIL

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 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 5th 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

- 1 The named officer for reporting issues to within Havering is the Chief Finance Officer (CFO). Should she be notified of a breach she 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.

- 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 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 work plan and attendees.

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 whistle blowing 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.

- 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.

Financial Implications and Risks:

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

Legal Implications and Risks:

In determining whether the legal requirements of the 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 whistle blowing 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.

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CHERYL COPPELL
Chief Executive

Background Papers – Pensions Regulator Code of Practice.



MEETING	DATE	ITEM
PENSIONS COMMITTEE	4 November 2008	7

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: PERFORMANCE OF THE PENSIONS ADMINISTRATION SERVICE 2007/2008

SUMMARY

This report is for information only and details the work and performance of the Pensions Administration Service during the financial year 2007/2008.

RECOMMENDATION

That Members note the work and performance of the Pensions Administration Service during 2007/2008.

REPORT DETAIL

1. Background.

London Borough of Havering (includes Homes in Havering)	5,126
Havering College	250
Havering Sixth Form College	73
Citizens Advice Bureau	3

Morrison's	63
May Gurney	2
Sports & Leisure Management	141
KGB Cleaning	1
Catering for Education	5
Deferred Members	2,762
Pensioners	4,468

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 added years
- Processing leavers with a refund of contributions or deferred benefits
- Updating the pensions computer system with changes to members details

2. Work Programme for 2007/2008.

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 2007/2008;

- Continuation of the Pension Partnership with Redbridge including a joint communication project in preparation for the new Pension Regulations
- Preparation for the complete change to the Pension Scheme Regulations due for implementation on the 1st April 2008.
- Data preparation and supporting work for the 2007 triennial Pension Fund valuation
- Staff training and development on new legislation and subsequent system updates.
- Produce Annual Benefit Statements for current and deferred Members.

3. Performance.

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

New Members	664
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Retirees (New Pensioners)	213
Estimates	534
Transfers (In & Out)	166
Refunds	41
New Deferreds	786
Deaths	134

Local performance indicators are attached at appendix A and you will notice that the bedding in of the new staff appointed in 2006/07 and the continued use of a part time temporary member of staff has resulted in improved performance in all of the indicators. This did however result in a minor over spend of the budget by £8k.

In addition to the above;

- A key piece of work for the Pensions Administration unit in 2007/08 was preparing for the triennial valuation of the Pension Fund. Data cleansing of all the pension records was a requirement before the Actuary could compile their report.
- The second key piece of work was the preparation work for the major changes to the pension scheme to be implemented on 1st April 2008. This work included a comprehensive communication strategy to ensure that, all members of the scheme, the Admitted and Scheduled bodies, other services areas affected by the changes such as HR and Payroll, were fully aware of the new regulations and the implications for them. The service's systems and procedures required amendment to reflect the changes and this entailed significant training for all the pension staff.
- The closer working relationship with the London Borough of Redbridge has continued to grow and the secondee that Havering has had from Redbridge for sometime has now become a permanent employee at Havering. There have been a number of joint initiatives and the communications to scheme members of the new regulations was a key element of this. Discussions between the two boroughs have continued with a view to progressing the option of co-location of the services in 2008/09.
- Havering has completed the work, started as part of the London Centre of Excellence project, on the production of agreed Performance Indicators (PIs) for Pensions Administration across London. The PIs have been agreed and it is expected that they will be recorded for the 2007/08 year and available for the first time in 2008/09.
- In addition to the new legislation issued by central government there were also several consultation exercises that the Council responded to and they were the subject of a separate report to this committee.

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 almost been completed for the cases that have been heard and decided at tribunal but there are still outstanding cases that are being dealt with by the pension section

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 Resource Implications and Risks:

No human resource implications arise, directly, from this report.

Equalities and Social Inclusion Implications and Risks:

None for the purpose of this report.

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CHERYL COPPELL
Chief Executive

Background Papers – None

APPENDIX A

Pension Services Local Performance Indicators –2007/2008

Indicator	What is it an indicator of	Actual 2006/07	Actual 2007/08	Target 2007/08	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.	83.6%	96.24%	90%	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.	83.25%	92.32% There were two poor performing months that resulted in a failure to meet target these were as a result of priority being to a large number of retirements.	97%	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	78.03%	86.51%	78%	90%
The percentage of refunds processed within 10	The percentage of refunds of contributions processed upon request by former employees. This indicator is a standard used throughout	84.75%	90.24%	88%	95%

working days	the Local Government and will serve as a good benchmark.				
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.	97.70%	98.087% The difficulty in meeting target was as a result both unusual peaks in workload and two new members of staff.	98.5%	99.5%

Other tasks carried out by the pension group

Letters	4,589 + 5,000 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)	2,273
Deaths	128
Newcomers to the scheme	666
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



MEETING	DATE	ITEM
PENSIONS COMMITTEE	4 November 2008	8

REPORT OF THE CHIEF EXECUTIVE

**SUBJECT: FLEXIBLE RETIREMENT AND OTHER DISCRETIONS
WITHIN THE LOCAL GOVERNMENT PENSION SCHEME
(LGPS)**

SUMMARY

Flexible retirement is a new provision, permitting employees who are over the age of 50 and who have changed their grade or hours of work to receive immediate payment of their pension benefits whilst still working, subject to employers' approval and certain other criteria. In the past, employees were not permitted to draw their pension benefits whilst continuing in employment. In relation to flexible retirement, the detailed costs are also difficult to predict as this is a new provision in the regulations. However, the costs of the policy as proposed are expected to be minimal as apart from exceptional cases, the recommended policy is to only allow cases where there is no cost to the Council.

There is also a need due to the changes in regulations and an existing requirement to review the Council's discretions within the LGPS. The opportunity has therefore been taken to recommend some minor changes to the Council's Discretionary Policy and agree a revised statement to be published to members of the scheme.

Members are reminded that the application of these discretions and other general discretions in the scheme are performed by the Pensions Panel.

Once agreed, a new policy statement will be produced and published to members of the pension scheme and will come into effect one month after the Pension Committee decision.

RECOMMENDATION

That the Committee:

- consider the options available for flexible retirement arrangements,
- approve the adoption of appropriate guidelines for flexible retirement to reflect the discussions and agreement that will take place at the meeting,
- agree a policy statement will be reviewed based on the outcome of the meeting and circulated to Members thereafter for final agreement by the Chairman, and
- document a Policy from this report.

REPORT DETAIL**1. Background.**

The Local Government Pension Scheme (“LGPS”) Regulations and other related legislation contain a number of discretionary areas (“discretions”) which provide for flexibility in how the rules of the scheme may be used and benefits that can be awarded to employees. The Council is required by the legislation to publish policy statements indicating how some of these discretions will be exercised.

There have been a number of changes to the Local Government Pension Scheme and related legislation recently which fundamentally changes some of the discretions or create additional ones. Therefore, it is an appropriate time to review our existing policies. It is also important to ensure that in future, as a matter of good practice, all the policies are reviewed periodically.

2. Flexible Retirement – Regulation 35.

- 2.1 A new discretion of particular note is the introduction of flexible retirement benefits. Part of the approach to affordable pension provision is to allow people to save more by relaxing some of the tax rules around contribution rates and subsequent benefits and to encourage employees to keep working beyond the age where they might previously have contemplated early retirement to retain skills in the public sector. Employees can now remain

contributors to the Council's pension scheme up to the day before their 75th birthday. In addition, there are new provisions allowing pensions scheme members to receive payment of their pensions with their employers consent whilst continuing to work in a reduced or part-time capacity.

- 2.2 Under these new arrangements, an employee who reduces their hours or grade either by their request or action by the employer, who is over 50 and under 65 may take their pension benefits with employer consent and remain in employment. In the past, employees were not permitted to draw their pension benefits whilst continuing in employment. The Committee need to consider whether staff who are allowed to reduce their hours or grade can take their pension.

In these circumstances the pension benefits (annual pension and lump sum retirement grant) are subject to reduction due to early payment, unless staff have protected rights or the employer chooses to "waive the reduction" and pay unreduced benefits. Waiving the actuarial reduction could be a substantial cost to the employer which must be paid into the fund immediately. Therefore, very few authorities appear to be considering waiving any reduction in benefits.

- 2.3 There are a number of advantages for employers in allowing flexible retirement:

- Allowing older employees to reduce their hours or grade and continue working may improve the health, motivation and productivity of the workforce.
- It will underpin the Council's commitment to avoiding age discrimination and mitigate recruitment difficulties which may be associated with an ageing population.
- It also allows for a more pro-active approach to succession planning.

- 2.4 As a new area of discretion it is difficult to say what extent the facility might be taken up and therefore, what costs might be incurred as a result to the Fund if actuarially reduced or to employee costs of covering loss of partial skills/capacity. At this early stage it is important that each case takes into account not only the financial cost of the Pension fund and Council budgets, but also those human resources costs associated with recruiting and training a replacement for the additional hours for the post.

With regards to those cases where there is a cost to the employer, consideration could still be given to the case following a similar process to that already in place for dealing with premature retirement. Agreement would depend upon consideration of the individual merits of the case, the robustness of the written business reasons, the benefit to the Council and the level of cost involved.

- 2.5 In view of the cost to the Pension Fund and the Council, Members views are requested on whether the Council:
- a. Should confirm the discretion of flexible retirement on an actuarially reduced basis only, unless the regulations prevent reduction, and agree to explore the benefits of any waiving as part of the Human Resource Strategy, with a report back to both this Committee and Cabinet.
 - b. Confirm the discretion of flexible retirement with the ability to waive any actuarial reduction.
- 2.6 Any discretion will be exercised in accordance with the proposed policy that states that it be used in situations where there is no or minimal cost to the Council and subject to the satisfactory resolution of any business delivery issues identified by the relevant Director / Head of Service.

3. Abatement – Regulation 109.

- 3.1 Due to the introduction of a flexible retirement policy, it is appropriate for the Council to reconsider its abatement policy. Where a scheme member who is in receipt of a pension from the Council's Fund enters a local government employment where they are again eligible to join the scheme (regardless of which employer within the Fund they join) the Council can decide to reduce or suspend that person's pension (commonly referred to as "abatement"). This option only applies in respect of re-employment in local government, it cannot apply for any other employment regardless of the level of remuneration being received in subsequent non local government employment.
- 3.2 The current policy of the Council is to abate pensions on re-employment (i.e. the annual rate of the pension is reduced by the amount, if any, which is necessary to ensure that the total of the annual remuneration of the new employment plus the annual rate of the pension does not exceed the annual remuneration of the old employment, in real terms).
- 3.3 While abatement may have been seen as a useful tool in the past to ensure the benefits of the Local Government Pension Scheme are not abused (for example, in cases where an employee is re-employed by the same local authority in a very similar post shortly after receiving early retirement), it could be argued that such abuse has always been in the control of employers and decisions to retire an employee should not have been taken where this type of 're-deployment' was a possibility.
- 3.4 It should also be noted however that with the introduction of flexible retirement provisions, it is now possible to legitimately allow an employee to reduce their hours or responsibilities and remain working while drawing their accrued pension benefits. In these cases the LGPS regulations specifically state that abatement should not apply.

- 3.5 Should Members agree to having a discretion of waiving of actuarial reductions, for consistency it would seem appropriate that abatement arrangements are reviewed. One option could be that individuals who have received early payment of pension are only re-engaged by the Council after careful consideration of the benefit to the Council. Employing managers would in future be required to submit a written statement to Pensions Panel justifying the need to re-employ such an individual clearly setting out the business case and financial benefit in the same way that robust business case would need to be made to support flexible retirement.

This however could mean that staff re-employed are more financially advantaged than those under the flexible retirement arrangements.

4. Review of Other Discretions.

- 4.1 There are other discretions the Pensions Committee should review.

DISCRETIONS POLICY

This statement outlines the Council's policies in relation to a number of discretions that may be exercised relating to pension and compensation matters. The Council's policies as detailed here will be operated in normal circumstances. However, each case will be considered on its own merits and exceptional circumstances may merit a move from the policies as outlined in this statement.

Regulation 31

Consent to the immediate payment of pension benefits between the ages of 50 and 60

Consent to the early payment of deferred pension benefits on compassionate grounds on or after the age of 50 and the waiving of an actuarial reduction to pension benefits on compassionate grounds.

The Local Government Pension Scheme allows a scheme member to retire voluntarily (or to receive payment of deferred benefits in the case of employees who have already left) at any point from age 60. Depending on their accrued scheme membership service at that point, they may suffer a reduction in the value of their pension and lump sum. The Pension Regulations provide that employers may permit scheme members to retire (or receive payment of deferred benefits) before age 60 (as long as they have attained age 50). As with retirement after age 60, they may suffer a reduction to the value of their accrued pension and lump sum.

The Council's current policy, as determined at Investment Committee 2001, is to exercise its discretion under this Regulation after careful consideration of the merits of each individual election taking into account the Council's financial position at the time of the election.

Regulation 52

Power of the Employing Authority to award an additional period of scheme membership to a scheme member.

This provision permits an employing authority to award an additional period of scheme membership to a scheme member (commonly referred to as "augmentation"). Subject to some other statutory limitations, the maximum that can be awarded is 10 years. The period can be awarded at any time as long as the employee who is to receive the award is still an active member of the Local Government Pension Scheme. The cost of granting the additional period of scheme membership falls entirely on the employing authority.

It is also possible to use the augmentation provision within the Local Government Pension Scheme to provide a scheme member with the alternative of augmentation rather than receiving lump sum compensation upon redundancy or grounds of efficiency under the regulations.

The Council policy, as determined at Pensions Committee in 2006, is not to exercise its power of discretion under this regulation.

Regulation 53

Power of the Employing Authority to increase total membership of new employees.

This Regulation allows the Council to resolve to increase a new employee's pension membership within 6 months of them joining the Local Government Pension Scheme. The Council has decided that in general this discretion will not be exercised, having regard to the likely cost.

The Council has resolved, as determined at Investment Committee 2001, only to exercise its discretion under this Regulation after careful consideration of the merits of each individual case taking into account the Council's financial position.

Regulations 67 and 71

Power of the Employing Authority to establish shared cost AVC schemes and Transfer of former assignable rights from a scheme as a result of re-employment.

This Regulation allows the Council to resolve to establish a SCAVC scheme whereby the Council contributes as well as the member. The Council has decided not to exercise this discretion on cost grounds.

The Council has resolved, as determined at Investment Committee 2001, at this time not to establish a shared cost AVC scheme under Regulation 67 and transfers of former assignable rights (Regulation 71) will not be accepted.

4.2 There are no recommended changes to the Policy in respect of the above.

5. Policy Statement.

A review of the Policy Statement will be required. It is proposed that this is circulated, once amended, to the Committee for final agreement by the Chairman.

Financial Implications and Risks:

The introduction of the Flexible Retirement Policy will incur some additional costs which are unknown and will be funded from service budgets if a justified business case can be made. The change to the abatement policy will result in a small cost to the pension fund.

Legal Implications and Risks:

The Legal implications are contained within the body of the report.

Human Resource Implications and Risks:

The flexible retirement policy will assist services by helping to address;

- Succession planning
- An ageing workforce
- Skills shortage areas in key occupation groups
- Key posts that are likely to continue to be hard to fill

Equalities and Social Inclusion Implications and Risks:

The flexible retirement policy enables older staff to remain in employment longer than they might otherwise be able to.

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CHERYL COPPELL
Chief Executive

Background Papers

The Local Government Pension Scheme Regulations (as amended)



MEETING	DATE	ITEM
PENSIONS COMMITTEE	4 November 2008	9

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: THE ADMISSION OF SIMPLY BETTER SERVICES LTD. TO HAVERING'S PENSION FUND.

SUMMARY

This report recommends that Members consider whether to allow the six staff transferring under a TUPE arrangement from the Council to a private contractor (Simply Better Services Ltd.) to continue to be members (or have the right to membership) of the Local Government Pension Scheme (LGPS) by admitting Simply Better Services Ltd. to the London Borough of Havering's Pension Fund as an admitted body

RECOMMENDATIONS

1. That Members consider whether to admit Simply Better Services Ltd. 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 for £8,000 in an approved form with an authorised insurer or relevant institution, being put into place to protect the pension fund.

Or

That Members decide not to admit Simply Better Services Ltd to Havering's Pension Fund as an Admitted Body and therefore require them to provide a broadly comparable pension scheme to the transferring employees from Wykeham Primary School.

2. Members consider any changes to the Admitted Body Policy which need to be explored and reported back to the Committee.

REPORT DETAIL

1. Simply Better Services Ltd succeeded in winning the contract to provide cleaning services to Wykeham Primary School. The contract is for 3 years and is due to commence on 1st January 009, replacing the current cleaning arrangements which are provided by the School's own staff.
2. When the cleaning service transfers from the School's in-house team to Simply Better Services Ltd on 1st January 2009, the contracts of employment of a number of employees will transfer from the Council/School to Simply Better Services Ltd. The Transfer of Undertakings (Protection of Employment) Regulations ("TUPE") applies to the employment terms and conditions of the relevant employees except for pension rights. Four of the employees concerned are members of the LGPS.
3. Subsequent to the letting of the contract, Simply Better Services Ltd contacted the Council and enquired about the possibility of Admitted Body Status for the transferred employees. Specifically for the four employees who will be in the LGPS at the date of transfer.
4. In accordance with Government policy for Local Government employers, Simply Better Services Ltd 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.
5. In accordance with Government policy for Local Government employers, Simply Better Services Ltd 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.
6. If agreed, Simply Better Services Ltd. 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 Simply Better Services Ltd. whether they are working

on the Wykeham Primary School contract or not will not be eligible to join the pension scheme.

7. The Local Government Pension Scheme Regulations enable Simply Better Services Ltd. to be admitted to the LGPS as a transferee admission body.
8. Admission of non-local authority employers to the LGPS takes place by the means of a formal, legal admission agreement drawn up between the interested parties. Under the terms of the regulations, the effect of such a step is that:-
 - a. relevant employees of the admitted body can fully participate in the Scheme and so can be described as pensionable employees; and
 - b. the Regulations governing the Scheme treat the admitted body in exactly the same way as if it were a Scheme employer. For admission status and membership status to continue, the admitted body must adhere at all times to the Scheme regulations, including, of course, the specified terms of their individual admission agreements
9. To bring greater certainty and clarity to the formulation of admission agreements between all the parties, the regulations set out a number of mandatory matters of substance which must, therefore, be included in each admission agreement prepared under the Regulations.
10. An admission body as defined by the regulations must secure an actuarially appropriate level of indemnity, or bond, in an approved form so as to be able, as required by Regulations to satisfy the relevant administering authority (The Council). The collective purpose of these particular requirements is to protect LGPS pension funds from risk of any permanent financial loss and to guard against any deficiencies or shortfalls in the event of insolvency, or from any default by a contractor in the payment of contributions due to pension funds as may be determined by an actuary.
11. The Pension Fund's actuary has assessed the level of indemnity bond required (£8,000) although the exact arrangements for the bond cover would have to be finalised and therefore the recommendation in the report is made on the condition that suitable arrangements agreeable to all parties and in compliance with the Regulations, can be put into place.

Financial Implications and Risks:

The Contribution rate set by the Actuary for the membership involved in the contract is 21.5% of pensionable pay. This is calculated on the basis that no new employees will be admitted to the Fund. This contribution rate is lower than the rate for Council employees, 21.7%, as it reflects future service only. The deficiency that has built up

in the Pension Fund remains with the Fund and does not transfer to the contractor.

The Actuary has assessed the level of indemnity bond cover required in respect of this contract assuming that it is not open to new entrants. The objective of the bond is to make good the funding position of the scheme if the contractor defaults on his obligations under the agreement, such as meeting the costs of early payment of pensions on redundancy for the over fifties or early retirement. This could occur at the end of the contract term or at some mid point if the contractor, say, goes into liquidation.

The initial level of the bond cover is being set at £8,000. If the contract is renewed this will be reviewed as part of the triennial valuation or more frequently if required.

It is essential that the cover level be reviewed regularly, and that it is made clear to the new body that this will occur and that further finance may be required. This will be included in the Admission Agreement.

There is also the risk that there may be a deficiency when the admission agreement is terminated. This risk is managed by the closure valuation and associated certificate, which will be included in the admission agreement. Simply Better Services Ltd. will be required under the agreement terms to make good the deficiency.

Legal Implications and Risks:

The continued admission of these staff in the LGPS gives them ongoing equality of pension provision with Council employees.

Human Resource Implications and Risks:

Where staff transfer from the public sector, the Cabinet Office, Statement of Practice (January 2000) requires 'broadly comparable' pension provisions to be made, by the recipient-contractor, for the staff who transfer. Granting admission body status to Simply Better Services Ltd. will enable this requirement to be met.

The Local Government Pensions Scheme Regulations require an admission agreement to be entered into where admission body status is granted to an 'external' body. In dealing with the admission agreement the Assistant Chief Executive – Legal and Democratic Services will address the question of whether Wykeham Primary School, as well as Simply Better Services Ltd., should be made a party to the Admission Agreement. As set out, within the body of the report, Simply Better Services Ltd. will be required to provide a bond.

To comply with the requirements of the Local Government Pension Scheme Regulations, the Commissioner for Inland Revenue and the Secretary of State must be notified, within the required time periods, that the Council - as the 'Administering

Authority' for the Havering pension fund - has entered into an admission agreement with Simply Better Services Ltd.

Equalities and Social Inclusion Implications and Risks:

None for the purposes of this report.

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Background Papers

The Pension Implications of Transferring Employees to an External Provider (Information guide issued by the Employers Organisation).

The Local Government Pension Scheme Regulations (As Amended) and the Guidance notes issued with them.



MEETING	DATE	ITEM
PENSIONS COMMITTEE	4 November 2008	10

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: REVIEW OF THE INVESTMENT ADVISER

SUMMARY

This report reviews the performance of the Investment Adviser, Hymans, since their last six month review in September 2007.

RECOMMENDATIONS

It is recommended that the Committee notes: -

The views of officers on the performance of the Investment Adviser and makes any comment on the report which it considers appropriate.

REPORT DETAIL

1. BACKGROUND

- 1.1. At its meeting of 19th December 2006, the Pension Committee appointed Hymans Robertson to provide investment advisory services to the Havering Pension Fund following a competitive tender process. Hymans was appointed for the period commencing on the 1st April 2007. The contract is to run from

1st April 2007 until 31st March 2010 unless terminated or extended by the Council in accordance with the terms of the contract.

- 1.2 Members have adopted the procedure to undertake an annual assessment of the Investment Adviser which is in line with Myner's Principle number 8 on performance measurement.
- 1.3 The Pension Committee agreed to introduce an additional fifth meeting during the 2007/08 committee cycle to pull together the annual reviews, leaving the other four meetings to primarily focus on the quarterly monitoring reports on performance of the pension fund. The consequence of this decision meant that the previous appraisal period covered six months and member's agreed that a full assessment will be reported at this committee.

2. REVIEW OF THE INVESTMENT ADVISER'S PERFORMANCE

- 2.1 The advice services provided by Hymans over the past 12 months were generally in relation to the core service which includes quarterly monitoring reports, attendance at Pensions Committee, providing questions for officer meetings with fund managers and training.
- 2.2 In addition to the core services, the Investment Adviser has been, together with the Pensions Committee undergoing an investment strategy review. The Investment Advisers completed an asset liability modelling exercise, which formed the basis of the review and they provided specific advice, support and training at the three investment strategy review meetings.
- 2.3 The Best Value Review into the Pension Fund recommended that an Investment Adviser to the Pension Fund be appointed as it accords with best practice and the Myner's Principles for managing Pension Funds. In making this recommendation the report outlined four criteria for an Investment Adviser, these were: -
 - What is important to the Authority
 - The level of proactivity expected from the Adviser
 - The value they will/could add to the process
 - Support arrangements
- 2.4 In addition, to the above criteria officers selected other criteria which they believe are essential in a service such as investment advice – these were:
 - A prompt and responsive service
 - Good communication

- The provision of advice to officers and members on options and the way forward
- A partnership approach to reaching investment decisions.

2.5. The Investment Adviser's performance has been reviewed using the above criteria, with the last two being implicit in all of the criteria, and also the more specific criteria defined in the invitation to tender documentation. The results of the review of performance over the past year are set out in the following table and have been discussed with the adviser:

CRITERIA	ASSESSMENT
What is important to the Authority	<p>It is important that the Pensions Committee and officers receive expert advice on investment issues and how they affect the Local Government Pension Scheme. It is also important that a steer is given to investment decision making.</p> <p>Every quarter the Investment Advisers produce a report on the performance of the Investment Managers and attend Pensions committee meetings to discuss performance issues. A mix-up of diaries meant non attendance at one of the pension committee meetings. The adviser has provided valuable advice and guidance at the meetings.</p> <p>The adviser has also provided useful information and advice to officers and provided questions for the officer meetings with the Fund Managers.</p>
The level of pro-activity expected from the Adviser	The Investment Advisers have taken an active role at Pension Committee meetings and on behalf of the committee have challenged the fund managers on their performance and strategies.
The value they will/could add to the decision making process	The most value the advisers will add will come as a result of their input to the investment strategy review. They completed an asset liability modelling exercise on which they put forward options to members for decisions. They also carried out a review of the current fee arrangements, which were considered as part of the investment strategy review.
Support arrangements	The support arrangements in place are good. Cover was arranged for an instance of sickness at a Pensions

	Committee meeting.
Prompt and responsive service	Reports are received on time. Response to officer queries has been good although it has not always been clear of the cost associated with queries raised. As a way forward it was agreed to explore the possibility of agreeing an annual fixed fee for ad hoc queries.
Good communication	The communication with the Adviser is good. Reports are well structured and easy to understand. The reports for the strategy review have been easy to review and amended to ensure an audit trail was evident for decision making.

3. CONCLUSION

Officers are very satisfied with the service provided by Hymans and have confidence in the advice being given. Informal feedback from members of the committee has also been positive.

During the year there was a change in the team providing investment advice within Hymans and whilst this was disappointing officers were satisfied with the transition and the way in which this change has been implemented.

4. COST OF THE SERVICE

Myner's Principle 4 on expert advice states that 'the fund should be prepared to pay sufficient fees' for expert advice. The cost of Investment Adviser services for 1st September 07 to 31 August 08 was £61,616. This includes the charge of £37,400 spent on the investment strategy review to date and it is anticipated that this will not be an annual charge.

Financial Implications and Risks:

There are no financial implications or risks arising directly from this report. The costs of the Investment Adviser are met from the Pension Fund.

Legal Implications and Risks:

None.

Human Resource Implications and Risks:

None.

Equalities and Social Inclusion Implications and Risks:

None.

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Chief Executive

Background Papers

Working papers held within Corporate Finance
Items 12 and E1 Pension Committee meeting 19th December 2006 - Appointment
of Investment Adviser



MEETING	DATE	ITEM
PENSIONS COMMITTEE	4 November 2008	11

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: REVIEW OF THE PENSION FUND CUSTODIAN

SUMMARY

This report reviews the annual performance of the Custodian, State Street, for the period April 2007 to March 2008.

RECOMMENDATIONS

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

REPORT DETAIL

1. BACKGROUND

- 1.1. At its meeting of 8th September 2004, Members were informed that following a competitive tender process, State Street had been appointed via a Chairman's decision to provide an investment custodial service to the

Having Pension Fund. State Street was appointed for the period from 31st December 2004 until terminated by either party. The Council may terminate this agreement by giving at least 28 days notice. The Custodian may terminate the Agreement by giving at least 90 days notice.

1.2 This is the third formal assessment of the custodial service by this Committee.

1.3 At the last review officers reported that they were dissatisfied with the Investment Accounting and Reporting functions and consequently also reported that a further review of their service at the end of December quarter would be required in order to determine whether the planned improvements have been achieved. Officers are pleased to report that improvements have been made to the format of the reports and officers will continue to monitor closely.

2. REVIEW OF THE CUSTODIAN'S PERFORMANCE

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

- Safe Keeping and Custody
- Investment Accounting and Reporting.
- **Safe Keeping and Custody**

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

State Street produce accounting reports that are similar to those the investment managers produce for the fund. They keep a record of the book costs in the various asset classes and also provide a market valuation of the fund. This is done for each of the investment managers' portfolio as well as at the total fund level. State Street records are therefore considered to be master records.

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

CRITERIA	ASSESSMENT
What is important to the Authority	<p>It is important that the Pensions Committee and officers have confidence that all assets are secure and have been properly accounted for. It is important that accurate accounting records are maintained and appropriate reconciliations are provided with the numerous fund managers, investment advisers and performance measurers.</p> <p><i>Officers have confidence that the assets are secure. Previously there were difficulties in pricing and timing of valuations that have often meant a variance between the valuations provided by the fund managers, the performance measurers and those provided by State Street. Whilst these variances will sometimes occur State Street has formally been producing reconciliations and where necessary providing explanations for differences outside the agreed tolerance level. Officers have found the reconciliations very helpful.</i></p>
The level of pro-activity expected from the Custodian	<p><i>Officers were mindful that the fund may not be receiving best value for money on some of the interest payable on cash held and have requested State Street to review this.</i></p>
Safe keeping and custody	<p>This relates to the core functions of the custodian.</p> <p><i>Officers are appreciative of how this role is performed and believe that this is a high quality service.</i></p>
Prompt and responsive service	<p><i>In the past there have been issues with the late issue of invoices and slow responses to errors identified on invoices. Officers are pleased to report that the timeliness of invoices has greatly improved but are disappointed at the level of errors that still occur on the invoices. It has become quite time consuming to check and recheck invoices issued but officers have seen some improvements and will continue to monitor this.</i></p>
Support arrangements	<p><i>The support arrangements in place are good.</i></p>
Good communication	<p><i>Monthly reports are produced on time. These reports are comprehensive but the data still requires reformatting and supplementing by additional reports in order that LBH officers can produce the accounts in the format as recommended in the Statement of Recommended Practice (SORP).</i></p>

	<p><i>Following the 2006/07 review it was agreed that officers and State Street would undertake quarterly reconciliations of accounts in the SORP format and this process was successful and greatly assisted the closedown process at year end.</i></p> <p><i>State Street agreed to develop automatic reports that follow the SORP format but these reports are still not yet available. It is anticipated that these reports will be available in 2009/10. In the meantime State Street will continue to provide supplementary reports to produce data that meets the SORP requirements.</i></p> <p><i>New SORP requirements have been introduced for the 2008/09 accounts and officers will continue to monitor this development to ensure that these changes are incorporated in the reports for 2008/09.</i></p>
Provision of data for the Office of National Statistics (ONS) Returns	<p><i>State Street has improved the timeliness of this data but will only deliver audited data following completion of reports at month end. ONS completion deadlines often coincide with State Streets reporting timetable and this will continue as it is unlikely that the ONS will relax their completion deadlines.</i></p>
Overall Summary	<p><i>Officers are satisfied with the performance of State Street with regard to Safe Keeping and Custody functions and are pleased with the improvements made for Investment Accounting and Reporting functions.</i></p>

3. CONCLUSION

- 3.1 Officers are satisfied with the safe keeping and custody functions provided by State Street.
- 3.2 Officers are pleased with the improvements made to the investment accounting and reporting functions and State Street are currently seeking to make further improvements in order to incorporate new SORP reporting requirements for 2008/09. Officers will continue to monitor State Street to ensure these new developments are delivered and the level of improvement is sustained.

Financial Implications and Risks:

The cost of custodian services for the year to 31st March 2008 was £113,654. These costs are paid directly from the Pension Fund and not the General Fund. The costs cover transaction charges, administration costs and custody fees based on a pre agreed unit price applied to the value of the individual fund's assets and each transaction.

Legal Implications and Risks:

None arising directly.

Human Resource Implications and Risks:

None arising directly.

Equalities and Social Inclusion Implications and Risks:

There are no social inclusion implications in this report

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CHERYL COPPELL
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Background Papers

Working papers held within Corporate Finance



MEETING	DATE	ITEM
PENSIONS COMMITTEE	4 November 2008	12

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: REVIEW OF THE PENSION FUND'S COMMUNICATION STRATEGY AND GOVERNANCE COMPLIANCE STATEMENT

SUMMARY

In line with the Local Government Pension Scheme (LGPS) (Administration) Regulations 2008, the London Borough of Havering as an administering authority has a duty to undertake a review of 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. Note that no major changes are required to the current version of the Pension Fund's Communication Strategy (See Appendix A).
2. Note the July 08 version of the Governance Compliance Statement as the current position (See appendix B).
3. Consider and agree any issues as needing to be amended in the Governance Compliance Statement.

4. Note the approach to the Administration Strategy.

REPORT DETAIL

1. BACKGROUND

- 1.1. The London Borough of Havering as the administering authority for the London Borough of Havering Pension scheme fund has:
- a) A Communications Strategy - This sets out its communication strategy for communicating with scheme members, including active, deferred and pensioner members, members' representatives, prospective members and employing authorities. The current version is attached as Appendix A.
 - b) A Governance Compliance Statement - This sets out the authorities approach towards governance of the pension fund and also lists the compliance standards against which LGPS committees are to measure themselves and to give reasons for non compliance. The current version is attached as Appendix B.
- 1.2 On the 30th June 07 a new regulation was added to the LGPS regulations 1997 that requires Local Authorities to prepare, publish and maintain, statements of compliance against a set of best practice principles on scheme governance and stewardship.
- 1.3 The Communities and Local Government Department (CLG) since 8 October 2007 have been issuing consultation and guidance for the Governance Compliance statement. The deadline to produce the first statement was originally the 1st March 2008, this deadline has since been extended to 1 June 2008, then 1 August 2008 and the latest deadline for publication is the 1 November 2008.
- 1.4 Although the statutory guidance is still in draft format the authorities first statement was published and sent to the CLG on the 15 July 08 to meet the then deadline of 1 August 2008. This was based on the guidance issued as at 25 June 2008 (Appendix C refers). The CLG have stated that there is no intention to amend the best practice principles so it does not envisage authorities having to prepare a second statement beyond that of the normal review process.
- 1.5 The Secretary of State via the CLG has confirmed that the authority has fulfilled its obligation in preparing a first governance compliance statement.

2. Key points for the committee to consider:

2.1 Communications Strategy (Appendix A)

No changes were made to the draft regulations since they were last reported to members. Therefore the only changes made to the current version that members previously agreed on the 15 November 2007 was to update job titles and pension committee members.

2.2 Governance Compliance Statement (Appendix B)

This sets out the authorities' position on compliance based on the guidance as at 25 June 2008. Listed below are the areas where the authority is not currently fully compliant so that members can reconsider whether to make changes as part of the review process. It should be noted that the authority does not have to be fully compliant but where it is not the authority has to state why not.

- a) 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 vacancy for the new member has only recently been filled, members may wish to continue to keep this issue under review while this role develops.
- b) 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.
- c) Listed below are the areas that require general updating as follows:
 - Current membership of the pensions committee needs to be amended to reflect the new member from the Independent Residents Group and the representative for the employers.
 - Principle B Representation. Item a (i). Remove references regarding vacancy.
 - Principle F Meetings (frequency/quorum). Item (c). Remove references regarding vacancy.

The compliance statement will be amended as necessary after the committee for these and any other changes and published on the council's website.

2.3 Administration Strategy

- a) An Administration strategy - This sets out the procedures for liaison and communication with employing authorities and would include setting performance levels which the administering authority and its employing authorities are expected to achieve in carrying their scheme functions.
- b) Local Government Pension Scheme (Administration) Regulations 2008 states that an Administering 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.
- c) At the last review on the 15th November 2007 the authority's approach reported to members was that, after consulting with the employers of the fund for comments (to which none were received), there were no plans to publish an administration strategy at that moment, mainly due to the many changes to the regulations already taking place. The current communications strategy also includes some of the relevant information. The authority's current approach is to continue to keep this option under review alongside current performance monitoring arrangements.

Financial Implications and Risks:

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

Legal Implications and Risks:

None arise from this report.

Human Resource Implications and Risks:

None arise from this report.

Equalities and Social Inclusion Implications and Risks:

None arise from this report.

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Background Papers

July 2008 version of Governance Policy Statement
March 2007 version of Communication Strategy
DCLG's covering letter dated 8 October 2007
DCLG's Governance compliance Statement: Statutory Guidance 2007



PENSION FUND

COMMUNICATION STRATEGY

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

London Borough of Havering

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.

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 invited to 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 all 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 Commercial frequently.

Issues Meetings

Regular Monthly Issues 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 Monthly Issues 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
4th Floor, Mercury House
Romford
RM4 3DS**

**Tel: 01708 432192/432981
Fax: 01708 432078
E-Mail: pensions@havering.gov.uk
Web: www.havering.gov.uk**

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



PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

(JULY 2008 – to be updated)

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 six councillors listed below:

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

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 reviewed once appointed.

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

	HAVERING POSITION										
A.	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th data-bbox="152 304 1339 347" style="text-align: left;">PRINCIPLE</th> <th data-bbox="1339 304 2072 347"></th> </tr> </thead> <tbody> <tr> <td data-bbox="152 347 1339 711"> <p><u>Structure</u></p> <p>a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p> </td> <td data-bbox="1339 347 2072 711"> <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> </td> </tr> <tr> <td data-bbox="152 711 1339 1158"> <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> </td> <td data-bbox="1339 711 2072 1158"> <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> </td> </tr> <tr> <td data-bbox="152 1158 1339 1270"> <p>c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> </td> <td data-bbox="1339 1158 2072 1270"> <p>No secondary committee or panel has been established.</p> </td> </tr> <tr> <td data-bbox="152 1270 1339 1415"> <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> </td> <td data-bbox="1339 1270 2072 1415"> <p>No secondary committee or panel has been established.</p> </td> </tr> </tbody> </table>	PRINCIPLE		<p><u>Structure</u></p> <p>a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p>	<p>Full compliance. Duties and terms of reference are laid out in the Councils constitution (Part 3) and states that management of the pension fund lies with the Pensions Committee.</p> <p>Sections 2 and 3 of the Governance Compliance Statement refer.</p>	<p>b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the committee.</p>	<p>Full compliance. Admitted/Scheduled bodies representatives may appoint one representative to attend and speak at committee meetings. The staff trade unions may appoint two representatives to attend and speak at meetings.</p> <p>There is no secondary committee.</p> <p>Section 3 of the Governance Compliance Statement refers.</p>	<p>c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p>	<p>No secondary committee or panel has been established.</p>	<p>d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</p>	<p>No secondary committee or panel has been established.</p>
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LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
B	<p><u>Representation</u></p> <p>a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis) 	<p>i) Full compliance - A position has been established for Admitted/Scheduled bodies representative to be a member of the main committee, this position is currently vacant while ongoing discussions are being held with the employing authorities regarding appointment. Supplementary to this they 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>

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

PRINCIPLE	HAVERING POSITION
<p>C <u>Selection and role of lay members</u></p> <p>a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p>	<p>Full compliance. Duties and terms of reference are laid out in the Councils constitution and states that management of the pension fund lies with the Pensions Committee.</p> <p>Sections 2 and 3 of the Governance Compliance Statement refer.</p>
<p>b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<p>Full compliance. Declarations of interest are always an agenda item at the pension committee meetings.</p> <p>Section 7 of the Governance Compliance Statement refers.</p>
<p>D <u>Voting</u></p> <p>a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</p>	<p>Partial compliance. The Governance Compliance Statement is clear about voting rights but currently does not include justification for not extending voting rights to each body.</p> <p>Going forward – pension committee members have decided to review voting rights when the new membership arrangements are in place (i.e. membership has been extended to include one representative for the admitted/scheduled bodies but no appointment has yet been made).</p>

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

PRINCIPLE	HAVERING POSITION
	Section 3 of the Governance Compliance Statement refers.
<p>E <u>Training/Facility time/Expenses</u></p> <p>a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p> <p>b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</p> <p>c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken</p>	<p>Full compliance. Member's expenses and allowances are laid out in the Council's Constitution (Part 6).</p> <p>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>Full compliance. As above.</p> <p>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.</p> <p>Section 4 of the Governance Compliance Statement refers.</p>

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

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

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

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

**DRAFT GOVERNANCE COMPLIANCE STATUTORY GUIDANCE –
VERSION II – JUNE 2008**

PART I

INTRODUCTION

1. This guidance is issued to all administering authorities in England and Wales with statutory responsibilities under the [Local Government Pension Scheme \(“LGPS”\)](#) and other interested parties listed at Annex B. It deals with the compliance standards against which [LGPS administering authorities](#) are to measure their [governance arrangements](#).
2. The guidance includes a combination of descriptive text explaining the rationale of each compliance principle, [and also](#) a description of the relevant statutory provision of [The Local Government Pension Scheme \(Administration\) Regulations 2008 \(“the 2008 regulations”\)](#) (Regulation 31 refers), and its predecessor, [regulation 73A of The Local Government Pension Scheme Regulations 1997 \(as amended\)](#), that requires LGPS administering authorities to measure their governance arrangements against the standards set out in this statutory guidance. Where compliance does not meet the published standard, there is a requirement under Regulation [31\(3\)\(c\)](#) to give, in their governance compliance statement, the reasons for not complying.
3. The Secretary of State will keep the content of the guidance under review in the light of administering authorities and other interested parties’ experience of applying the best practice standards. The guidance will be updated as necessary to reflect this and subsequent legislative changes.

BACKGROUND

4. The LGPS is a common scheme throughout England and Wales, administered by 89 individual pension funds, which includes the Environment Agency. In the context of the UK public pensions sector, it is atypical in being funded with assets in excess of £100bn. Viewed in aggregate, the LGPS is the largest funded occupational pension scheme in the UK.
5. As a statutory public service scheme, the LGPS has a different legal status compared with trust based schemes in the private sector. Matters of governance in the LGPS therefore need to be considered on their own merits and with a proper regard to the legal status of the scheme. This includes how and where it fits in with the local democratic process through local government law and locally elected councillors who have the final responsibility for its stewardship and management. The LGPS is also different in the respect that unlike most private sector schemes [where the accrued benefits payable to members are always subject to the risk of scheme under-performance or even failure](#), the accrued benefits paid by local authorities are [established and payable according to statute and underpinned from local authority revenue and not the pension funds themselves](#). [In simple terms, the pension funds exist to defray the pension costs incurred by the local authority](#) . On this basis, it is the

local authority itself, and local council tax payers, who bear the financial and investment risks of the scheme.

6. The word “trustee” is often used in a very general sense to mean somebody who acts on behalf of other people but in pensions law it has a more specific meaning. Most occupational pension schemes, primarily in the private sector, are established under trust law. Under a trust, named people (trustees) hold property on behalf of other people (beneficiaries). Trustees owe a duty of care to their beneficiaries and are required to act in their best interests, particularly in terms of their investment decisions. Although those entrusted to make statutory decisions under the LGPS are, in many ways, required to act in the same way as trustees in terms of their duty of care, they are subject to a different legal framework, which derives from public law. In particular, local authority councillors are subject to all the normal duties and responsibilities that come with their office. But they are not trustees in the strict legal sense of that word.

7. Trustees of private sector schemes ensure better scheme security, prevent employer-led actions which could undermine a scheme’s solvency and seek to ensure that investment and other decisions are both prudent and fair. While the public law framework applying to LGPS schemes will require similar standards of behaviour and practice by members of pension committees, who in this respect also fulfil a fiduciary role, a key distinction to be made is that LGPS benefits are established and paid under statute. Administering authorities are therefore subject to a statutory obligation that they are required to meet, irrespective of their scheme’s investment performance or general funding position. As such, scheme members in the LGPS are not subject to the same type of benefit risk as those in trust-based pension schemes. The entitlements and benefits payable to scheme members in trust based schemes are, potentially at least, more volatile and dependent ultimately on the effectiveness and stewardship of their trustees working as they must under the constraints of the employers’ overall covenant standing behind the scheme. This perceived risk to security was the main motivation for the inclusion of the member-nominated trustee provisions in the Pensions Act 1995 as a result of which the principle that scheme beneficiaries should be part of the decision making process became established. But even member nominated trustees must act in the interest of the beneficiaries and must not take decisions out of self-interest or because they have in mind a particular agenda. The Pensions Act 2004 simply extends that status.

8. On the one hand, elected councillors have legal responsibilities for the prudent and effective stewardship of LGPS funds and in more general terms, have a clear fiduciary duty in the performance of their functions. However, it is equally clear that the beneficiaries of the scheme have an interest in the beneficial title to the assets and the legal right to require that the assets are held and managed on their behalf in accordance with the governing legal instrument, in this case, the LGPS regulations. In this respect, elected councillors have a duty of care that goes beyond the strict fiduciary duty to employers and tax payers. Although there is no one single model in operation throughout the 89 LGPS fund authorities in England and Wales, most funds are managed by a formal committee representing the political balance of that particular authority. Under section 101 of the Local Government Act 1972, a local authority can delegate their pension investment functions to the Council, committees,

sub-committees or officers, but there are a small number of LGPS fund authorities which are not local authorities and therefore have their own, distinct arrangements.

9. It is also relevant to note that under The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (SI 2000 No 2853) and The Local Authorities Executive Arrangements (Functions and Responsibilities) (Wales) Regulations 2001 (Welsh SI 2001 No 2291), statutory decisions taken under schemes made under sections 7, 12 or 24 of the Superannuation Act 1972, are not the responsibility of the executive arrangements introduced by the Local Government Act 2000. This means, for example, that the executive cannot make decisions in relation to discretions to be exercised under the LGPS, or make decisions relating to the investment of the pension fund and related matters. These functions have continued to be subject to the same legislative framework as they were before the passing of the Local Government Act 2000, including delegations under section 101 of the Local Government Act 1972. Such delegations vary from local authority to local authority depending on local circumstances. However, the Secretary of State has advised that where such decisions were delegated to committees or to officers, then those delegations should continue. (see paragraphs 5.10 and 5.11 of the Statutory Guidance to English Local Authorities – New Council Constitutions : Guidance Pack Volume 1)

10. Under section 102 of the Local Government Act 1972, it is for the appointing council to decide upon the number of members of a committee and their terms of office. They may include committee members who are not members of the appointing council and such members may be given voting rights by virtue of section 13 of the Local Government and Housing Act 1989. On this basis, it is open to pension committees to include representatives from district councils, scheme members and other lay member representatives, with or without voting rights, provided that they are eligible to be committee members (eligibility rules are set out in section 15 of the Local Government and Housing Act 1989).

STATUTORY BACKGROUND

11. In response to proposals issued by the former Office of the Deputy Prime Minister, the Local Government Pension Scheme Regulations 1997 were amended to require LGPS administering authorities to publish details of their governance and stewardship arrangements by 1 April 2006. The purpose of this first step was to gauge progress made in [improving the breadth of representation on LGPS committees](#) in general and to assess what action, if any, should be taken to ensure that all committees operate consistently at best practice standards. On 30 June 2007, the 1997 regulations were further amended to require administering authorities to report the extent of compliance against a set of best practice principles to be published by CLG, and where an authority has chosen not to comply, to state the reasons why. The first such statement must be published by 1st [August 2008](#).

12. [With effect from 1 April 2008, the responsibility to review and, where necessary, revise their governance compliance statements published under Regulation 73A of The Local Government Pension Scheme Regulations 1997, is set out in Regulation 31 of the 2008 regulations :-](#)

“Pension funds : governance compliance statement

31—(1) This regulation applies to the written statement prepared and published by an administering authority under regulation 73A of the 1997 Regulations (1).

(2) The authority must—

- (a) keep the statement under review;
- (b) make such revisions as are appropriate following a material change in respect of any of the matters mentioned in paragraph (3); and
- (c) if revisions are made—
 - (i) publish the statement as revised, and
 - (ii) send a copy of it to the Secretary of State.

(3) The matters are—

- (a) whether the authority delegates its function, or part of its function, in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the authority;
- (b) if it does so—
 - (i) the terms, structure and operational procedures of the delegation,
 - (ii) the frequency of any committee or sub-committee meetings,
 - (iii) whether such a committee or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and, if so, whether those representatives have voting rights;
- (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying.

(4) In reviewing and making revisions to the statement, the authority must consult such persons as it considers appropriate.

It is important to note that the scope of this statutory guidance is restricted, by virtue of regulation 31(3)(c) above, to issues concerning the extent to which the way in which an authority has chosen to delegate its functions complies with the best practice principles set out below. Although outside the scope of regulation 31(3)(c), we think it is good practice for LGPS fund authorities as part of their governance and stewardship arrangements, to have robust risk management processes and policies to manage conflicts of interest in place. However, these are separate and specialist topics and so are not covered in depth here. We intend to work with CIPFA and other relevant parties on these topics to develop supplementary general advice and guidance notes on these important governance matters for LGPS funds.

PURPOSE

13. The purpose of this guidance is two fold. Firstly, Part II of the guidance provides a detailed description of each of the best practice principles against which compliance is to be measured (with each of the principles being set out in **bold** type) and secondly, it includes guidance on how the compliance statement in Part II should be completed.

TERMINOLGY

14. Throughout this paper, the distinction is made between those committees or sub-committees that have been formally constituted under 101 of the Local Government Act 1972 (“main committees”) and other committees or panels that have been established outside of that provision (“secondary committees”). Unless reference is made to “elected members”, the word “member” where it appears in the text is used to denote any member of a main or secondary committee, whether elected or not.

POSITION OF NON-LOCAL AUTHORITY ADMINISTERING AUTHORITIES

15. Regulation 73A of the Local Government Pension Scheme Regulations 1997 and this guidance made under powers granted by Regulation 73A(1)(c) of those regulations apply equally to all LGPS administering authorities in England and Wales. It is recognised, however, that a small number of administering authorities are not constituted as local authorities and are not therefore subject to the legal framework imposed on local authorities and their committees by local government legislation. In these cases, the authorities concerned are still required to measure the extent to which they comply with the principles set out in Part II of this guidance and where they are unable to comply, for example, because of their special position, to explain this when giving reasons for being unable to comply.

SUGGESTED READING

16. Although not a formal part of this guidance, it is recommended that administering authorities and other stakeholders should be aware of the contents of the following documents :-

- a) Good Governance Standards for Public Services (Office for Public Management (Alan Langlands – January 2005)
- b) Code of Corporate Governance in Local Government (CIPFA/SOLACE – 2007)
- c) Institutional Investment in the UK – A Review (HM Treasury – March 2001)
- d) Local Government Pension Scheme : Pension Fund Decision Making – Guidance Note (CIPFA Pensions Panel – 2006)
- e) Guidance for Chief Finance Officers : Principles for Investment Decision Making in the Local Government Pension Scheme in the UK (CIPFA Pensions Panel – 2001)
- f) [Regulatory Code of Practice no 7 : Trustee Knowledge and Understanding. The Pensions Regulator, May 2006](#)
- g) [Institutional Investment in the UK – Six years on \(NAPF, November 2007\)](#)
- h) [Updating the Myners principles : a consultation \(HM Treasury, DWP, The Pensions Regulator, March 2008\)](#)

PART II - THE PRINCIPLES

Part II/A - Structure

17. Elected members have legal responsibilities for the prudent and effective stewardship of LGPS pension funds and, in more general terms, have a clear fiduciary duty to [participating employers; local tax payers and scheme beneficiaries](#), in the performance of their functions. Although there is no one single model in operation throughout the 89 fund authorities in England and Wales, most funds are managed by a formal committee representing the political balance of that particular authority. Under section 101 of the Local Government Act 1972, a local authority can delegate their statutory functions to the Council, committees, sub-committees or to officers, but there are a small number of fund authorities which are not local authorities and therefore have their own, distinct arrangements (see para 15 above).

18. The formal committee structures operated by individual pension fund authorities reflect local circumstances and priorities and it is not the remit of this guidance to prescribe a “one size fits all” approach. The evidence collected by Communities and Local Government in 2006 indicated that the overwhelming majority of these committees operate efficiently and effectively despite the variations in their constitution, composition and working practices. The intention is not therefore to level out these differences but instead to ensure that these different structures reflect the best practice principles described below :-

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.

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 main committee.

c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

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.

Part II/B - Representation

19. Under section 102 of the Local Government Act 1972, it is for the appointing council to decide upon the number of members of a committee and their terms of office. They may include committee members who are not members of the appointing council and such members may be given voting rights (see Part II/C) by virtue of section 13 of the Local Government and Housing Act 1989. On this basis, it is open to

pension committees to include representatives from district councils, scheme member and other lay member representatives, with or without voting rights, provided that they are eligible to be committee members (eligibility rules are set out in section 15 of the Local Government and Housing Act 1989)

20. The number of stakeholders affected by the local management of the pension scheme and governance of pension funds is vast and it is accepted that it would be impractical to expect individual committee structures to encompass every group or sector that has an interest in the decisions that fall to be made under the scheme's regulations. The following principles are therefore intended to ensure that the composition of committees, both formal and secondary, offers all key stakeholders the opportunity to be represented. For example, deferred and pensioner scheme members clearly have an interest in the performance of pension committees but it would be impractical in many cases to expect them to have direct representation on a committee. Instead, there is no reason why a representative of active scheme members couldn't also act on behalf of deferred and pensioner scheme members. Similarly, a single seat in the committee structure could be offered to somebody to represent the education sector as a whole, rather than having individual representatives for FE Colleges, Universities, academies, etc.

21. An independent professional observer could also be invited to participate in the governance arrangement to enhance the experience, continuity, knowledge, impartiality and performance of committees or panels. Such an appointment could improve the public perception that high standards of governance are a reality and not just an aspiration. Moreover, the independent observer would be ideally placed to carry out independent assessments of compliance against the Myners' principles, both in terms of the 2004 follow up report and the latest NAPF consultation on next steps, together with other benchmarks that the fund authority's performance is measured against. The management of risk is a cornerstone of good governance and a further role for the independent observer would be to offer a practical approach to address and control risk, their potential effects and what should be done to mitigate them and whether the costs of doing so are proportionate. **It is accepted, however, that certain fund authorities may have devised, or wish to devise, other ways of ensuring the effective scrutiny of their decision-making and performance and it should therefore be borne in mind that the appointment of an independent observer is not to be taken as an absolute requirement in this guidance, provided that authorities are satisfied that their alternative arrangement would match the sort of standards rehearsed in the NAPF's follow-up report on the Myners' principles (recommendation 7) and the government's response to it published in March 2008.**

a) That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include :-

- i) employing authorities (including non-scheme employers, eg, admitted bodies);**
- ii) scheme members (including deferred and pensioner scheme members),**
- iii) where appropriate, independent professional observers, and**
- iv) expert advisors (on an ad-hoc basis).**

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

Part II/C - Selection and role of lay members

22. It is important to emphasise that it is no part of the fund authority's remit to administer the selection process for lay members sitting on main or secondary committees or to ensure their attendance at meetings, unless they wish to do so. Their role is to determine what sectors or groups are to be invited to sit on LGPS committees or panels and to make places available. Effective representation is a two way process involving the fund authorities providing the opportunity and the representative bodies initiating and taking forward the selection process under the general oversight of the fund authority.

23. Members of a main decision-making LGPS committee are in a [similar position](#) as trustees in the private sector. Trustees owe a duty of care to their beneficiaries and are required to act in their best interests at all times, particularly in terms of their investment decisions. They are not there to represent their own local, political or private interest. On a main committee [in the LGPS, the fiduciary duty to employers, taxpayers and scheme beneficiaries](#) must always be put before the interests of [individuals](#), individual groups or sectors represented on the committee, whereas on secondary committees or panels that are not subject to the requirements of the Local Government Act 1972, private interests can be reflected in proceedings.

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.

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

Part II/D – Voting

24. Although the 2006 survey conducted by Communities and Local Government revealed that formal votes taken by LGPS committees were rare, it is important to set out the legal basis on which voting rights are, or may be prescribed to elected and lay members.

Elected members of the administering authority

a) All elected members sitting on LGPS committees have voting rights as a matter of course. Regulation 5(1)(d) of the Local Government (Committee and Political Groups) Regulations 1990 (SI No 1553/1990) provides that voting rights will be given to a person appointed to a sub committee of a committee established under the Superannuation Act 1972 who is a member of the authority which appointed the committee.

Elected members of authorities other than the administering authority and lay members

b) Under sections (13)(1)(a) and (2)(a) of the Local Government and Housing Act 1989, a person who is a member of a committee appointed by an authority under the Superannuation Act 1972 but who is not a member of that authority, shall be treated as a non-voting member of that committee. However, the provisions of section 13(3) and (4) of the 1989 Act allow an administering authority discretion as to whether or not a member of a committee is treated as a voting or non-voting member.

Lay members of advisory panels, etc

c) Because they are not formally constituted committees, secondary committees or panels on which lay members sit are not subject to the restrictions imposed by the Local Government Act 1972 on voting rights. In these circumstances, there is nothing to prevent voting rights being conferred by the administering authority on all lay members sitting on panels or informal committees outside the main decision making committee.

25. The way in which an administering authority decides to exercise its discretion and confer voting rights on lay members is not a matter for which the Secretary of State, under his regulations making powers under the Superannuation Act 1972, has any remit. The issue of whether voting rights should be conferred on district council or scheme member representatives, for example, is a matter for individual administering authorities to consider and determine in the light of the appointing council's constitution. Regulation 73A(1)(b)(iii) of the 1997 Regulations already requires an administering authority to include in their statement details of the extent to which voting rights have been conferred on certain representatives, but does not extend to the need to give reasons where this is not the case.

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.

Part II/E – Training/Facility time/Expenses

26. In 2001, the Government accepted the ten investment principles recommended by Paul Myners in his report, "Institutional Investment in the UK". The first of those principles, "Effective Decision Making", called for decisions to be made only by persons or organisations with the skills, information and resources necessary to take them effectively. Furthermore, where trustees - or in the case of the LGPS, members of formal committees - take investment decisions, that they have sufficient expertise to be able to evaluate critically any advice they take.

27. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) already requires administering authorities to report the extent of compliance with this principle. But on the wider issue of governance, it is equally important that they report on the extent to which training facilities, etc, are extended to lay members sitting on either main or secondary LGPS committees.

28. If all stakeholders represented on LGPS committees or panels are to satisfy the high standards set out in the Myners' set of investment principles, it follows that equal opportunity for training, and hence facility time, should be afforded to all lay members. They too should have access to the resources that would enable them to evaluate the expert advice commissioned by the main investment committee and to comment accordingly. But the way that is achieved at local level is not a matter for national prescription, in particular, the policy adopted by individual administering authority or local authority on the reimbursement of expenses incurred by committee or panel members. On this basis, the best practice standard which administering authorities are required to measure themselves focuses on the extent to which they have a clear and transparent policy on training, facility time and reimbursement of expenses and whether this policy differs according to the type of member, for example, elected member or scheme member representative.

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.

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.

c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.

Part II/F – Meetings (frequency/quorum)

29. From the evidence collected in 2006 by Communities and Local Government, it is clear that the majority of administering authorities who have introduced a multi-level committee structure operate different reporting/meeting cycles for each committee or panel. In the case of main, formal committees, these tend to meet, on average, at least quarterly, though there are a few examples where meetings are held less often. As a general rule, it is expected that main committees should meet no less than quarterly. Although it is important that any secondary committees or panels should also meet on a regular and consistent basis, it is accepted that there should be no compulsion or expectation that there should be an equal number of main and secondary committee meetings. But as a matter of best practice, it is expected that secondary meetings should be held at least bi-annually.

30. Although the overwhelming majority of administering authorities operate effective representation policies, the evidence collected in 2006 by Communities and Local Government revealed a small handful of authorities who restrict membership of their committee's to elected members only. In legal terms, this is permissible, but in terms of best practice, it falls well short of the Government's aims of improving the democratisation of LGPS committees. In those cases where stakeholders, in particular, scheme members, are not represented, it is expected that administering authorities will provide alternative means for scheme employers, scheme members, pensioner members, for example, to be involved in the decision-making process. This may take the form of employer road-shows or AGMs where access is open to all

and where questions can be addressed to members of the main committee. It must be emphasised, however, that road shows or AGMs are not seen as viable alternatives to the participation of scheme member representatives within an authority's governance arrangement. They are, in effect, to be seen as a matter of last resort in the hopefully unlikely situation where an authority has decided to exclude scheme member representatives from either their main or sub-committee.

a) **That an administering authority's main committee or committees meet at least quarterly.**

b) **That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.**

c) **That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented**

Part II/G - Access

31. The people to whom the appointing council entrust with taking investment, and other statutory decisions, is a matter for that council to consider and determine. However, it is important that others, outside that formal decision-making process but involved in some capacity in the general governance arrangement, have equal access to committee papers and other documents relied on by the main committee in taking its decisions.

32. The fact that voting rights are not conferred on individual lay members should not put them on any less footing than those members who serve on the main committee with full voting rights. Secondary panels or committees have a clear role to underpin and influence the work of the main committee and can only do so where there is equal access.

a) **That subject to any rules in the councils 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.**

Part II/H – Scope

33. Traditionally, LGPS committees have focussed on the management and investment of the funds under their supervision, with questions arising from the main scheme dealt with by officers with delegated authority under the council's constitution. In recent times, however, and reflecting the trend towards de-centralisation, administering authorities have become responsible for formulating a significant number of policy decisions on issues like abatement, compensation and the exercise of discretions under the scheme's regulations. These are key decisions which should be subject to the rigorous supervision and oversight of the main committee. And with the prospect of some form of cost sharing arrangement to be in place by March 2009, it is clear that there are other key scheme issues, outside the investment

field, that main committees may need to address in the future. Given the not insignificant costs involved in running funds, LGPS committees and panels need to receive regular reports on their scheme administration to ensure that best practice standards are targeted and met and furthermore, to satisfy themselves and to justify to their stakeholders that the fund is being run on an effective basis. This would involve reviewing the committee's governance arrangements and the effective use of its advisers to ensure sound decision making. Here, the use of an independent professional observer, free of conflicts of interest, would enable a wholly objective approach to be taken to the stewardship of the fund.

34. All this points to LGPS committees perhaps becoming more multi-disciplined than they have been in the past, with a consequential impact on, for example, membership and training. For example, if decisions are to be taken by LGPS committees that could impact on the cost-sharing mechanism, it is reasonable to expect scheme member representatives to be present on those decision making committees, given that those decisions could have a direct impact on the position of scheme members under the scheme.

35. Although the future may see LGPS committees having a broader role than at present, individual administering authorities may adopt different strategies to meet these new demands. The more traditional approach might be to extend the scope of existing investment committees to include general scheme and other administrative issues. But already, there is evidence to suggest that some administering authorities have opted instead to establish new sub committees to deal solely with [the administration and communication of members' benefits or other scheme issues](#). The purpose of this guidance is not to prescribe the way in which administering authorities develop and adapt to scheme developments. Instead, the intention is to increase the awareness that administering authorities and their committees must be flexible and willing to change to reflect scheme changes and wider pensions issues.

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

Part II/I – Publicity

36. A key component in improving the democratisation of LGPS governance arrangements is to increase the awareness that opportunities exist for scheme member representatives and LGPS employers, for example, to become part of these arrangements. But the onus for increasing awareness should not rest entirely with the administering authority. It is just as much the role of scheme member representatives and scheme employers to keep abreast of developments in this field and to play an active part in the selection and appointment of committee or panel members. This is best left to local choice and discretion. However, administering authorities are reminded that under Regulation 76B(1)(e) of the 1997 Regulations, the latest version of their Governance Compliance Statement must be included in their Pension Fund Annual Report.

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.

Annexe A : Compliance Statement

Principle A – Structure

	Not Compliant*			Fully Compliant	
a)					
b)					
c)					
d)					

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

Annexe B – Summary of CLG’s 2006 Survey on Governance

**LOCAL GOVERNMENT PENSION SCHEME
GOVERNANCE SURVEY - A SUMMARY**

On 31 March 2006, LGPS administering authorities in England and Wales were required to publish details of their governance arrangements. This paper summarises the results of the survey. For the purposes of the paper, “representation” is taken to mean either attendance of scheme members (or their representatives) on formal investment/pension committees; attendance on secondary, formal committees; attendance on informal, advisory panels or the opportunity to attend annual general meetings, employer/scheme road shows, etc. A list of LGPS funds showing the extent of representation across these four areas is attached.

1. Main findings

- a). Percentage of fund authorities with representation on main committee = 84%
- b) Percentage of fund authorities with representation on second committees = 11%
- c) Percentage of fund authorities with representation on advisory panels = 15%
- d) Percentage of fund authorities with representation at AGMs, etc = 18%
- e) Percentage of fund authorities with none of the above = 15% (11 authorities)

(English shire counties = 4 authorities)
(London Boroughs = 6 authorities)
(Mets + others = 0 authorities)
(Welsh Unitaries = 1 authority)

2. Membership of Committees

- a) Average Number of members on all main committees= 10 (range = 3 to 20)
- b)) English shire counties = 11 (range = 5 to 20)
- c) London Boroughs = 8 (range = 4 to 15)
- d) Mets + others = 15 (range = 10 to 20)
- e) Welsh Unitaries = 8 (range = 3 to 16)

3. Frequency of Committee Meetings

- a) 86% of committees meet at least Quarterly
- b) 2 committees meet twice per annum
- c) 3 committees meet five times per annum
- d) 5 committees meet six times per annum

4. Voting Rights

- a) 4 authorities have conferred voting rights on lay members :-

- English shire counties = 2
- London boroughs = 0
- Mets and others = 2
- Welsh Unitaries = 0

- b) 5 authorities have conferred voting rights to lay members on advisory panels :-

- English shire counties = 1
- London boroughs = 0
- Mets and others = 2
- Welsh Unitaries = 2

5. Number of “trustees”

- a) Total number of members on main committees = 900
- b) Total number of elected members on main committees = 650 (72%)
- c) Number of lay members on main committees = 250 (28%)

6. Correlation between Governance and Funding levels

- a) No representation - Average funding level = 73% (range = 62% to 79%)
- b) 1 item of representation - Average funding level = 72.3% (range = 61% to 88%)

- c) 2 items of representation - Average funding level = 76.5% (range = 64% to 94%)
- d) 3 items of representation - Average funding level = 83.5% (range = 74% to 93%)
- e) 4 items of representation - Average funding level = 79.5% (range = 77% to 82%)

(Average funding level of all funds in England and Wales = 73.4%)

7. Correlation between Governance and Investment Returns

- a) No representation (11 funds) 03/04 Average = 25.7% (range = 22% to 30%)
04/05 Average = 13% (range = 10% to 17%)
- b) 1 item of representation (47 funds) 03/04 Average = 25.4% (range = 20% to 30%)
04/05 Average = 13.1% (range = 9% to 20%)
- c) 2 items of representation (19 funds) 03/04 Average = 23.5% (range = 20% to 29%)
04/05 Average = 11.7% (range = 7% to 15%)
- d) 3 items of representation (2 funds) 03/04 Average = 24.5% (range = 24% to 25%)
04/05 Average = 12.5% (range = 12% to 13%)
- e) 4 items of representation (2 funds) 03/04 Average = 23% (range = 22% to 24%)
04/05 Average = 13.5% (range = 13% to 14%)

REPRESENTATION LEVELS IN THE LGPS (ENGLAND & WALES)

LGPS Funds with no form of representation :-

Buckinghamshire County Council
Cambridgeshire County Council
West Sussex County Council
Worcestershire County Council
Hackney London Borough
Hounslow London Borough
Kensington & Chelsea London Borough
Corporation of London
Redbridge London Borough
Wandsworth London Borough
City & County of Swansea

LGPS Funds with 1 form of representation :-

Berkshire Pension Fund
Cheshire County Council
Cornwall County Council

Devon County Council
Durham County Council
East Riding County Council
Essex County Council
Gloucestershire County Council
Hampshire County Council
Hertfordshire County Council
Kent County Council
Lincolnshire County Council
Teeside Pension Fund
Norfolk County Council
Northumberland County Council
Oxfordshire County Council
Somerset County Council
Suffolk County Council
Surrey County Council
Warwickshire County Council
Wiltshire County Council
Barking London Borough
Barnet London Borough
Bexley London Borough
Bromley London Borough
Camden London Borough
Croydon London Borough
Ealing London Borough
Enfield London Borough
Hammersmith & Fulham London Borough
Haringey London Borough
Harrow London Borough
Havering London Borough
Hillingdon London Borough
Lambeth London Borough
Lewisham London Borough
Merton London Borough
Newham London Borough
Richmond-Upon-Thames London Borough
Southwark London Borough
Sutton London Borough
Tower Hamlets London Borough
Waltham Forest London Borough
City & County of Cardiff Council
Rhondda, Cynon & Taff CBC
Gwynedd Pension Fund
Dyfed Pension Fund
Torfean County Borough Council

LGPS Funds with 2 forms of representation :-

Bath & NE Somerset Council (Avon Pension Fund)
Bedfordshire County Council

Cumbria County Council
Derbyshire County Council
Dorset County Council
East Sussex County Council
Isle of Wight County Council
Lancashire County Council
Leicestershire County Council
Nottinghamshire County Council
Staffordshire County Council
Shropshire County Council
Brent London Borough
Islington London Borough
Merseyside Pension Fund
Tyne & Wear Pension Fund
London Pensions Fund Authority
Environment Agency
Clwyd Pension Fund
South Yorkshire PTA

LGPS Funds with 3 forms of representation:-

West Midlands Pension Fund
Tameside Pension Fund

LGPS Funds with 4 forms of representation :-

West Yorkshire Pension Fund
South Yorkshire Pension Fund

Note 1

Information relating to the following LGPS funds was not available at the time the survey was conducted :-

Northamptonshire County Council
North Yorkshire County Council
Greenwich London Borough
Royal Borough of Kingston Upon Thames
City of Westminster
Powys County Council

Note 2

The four forms of representation referred to above include :-

- membership of scheme members (or their representatives) on formal investment/pension committees;
- membership of scheme members (or their representatives) on secondary, formal committees;

Appendix C

- membership of scheme members (or their representatives) on informal, advisory panels, or
- the opportunity to attend annual general meetings, fund roadshows, etc.

**Department for Communities and Local Government
Local Government and Firefighters' Pension Schemes Division
May 2006**



MEETING	DATE	ITEM
PENSIONS COMMITTEE	4 November 2008	13

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: REPORT TO PENSIONERS AND CONTRIBUTORS OF THE PENSION FUND 2007-2008

SUMMARY

The Best Value Review of the Pension Fund recommended that an annual report on the Pension Fund be sent to all members of Havering's Local Government Pension Scheme. This report includes an attachment of the draft version of the annual report and seeks approval of its content and approval to send it to scheme members.

RECOMMENDATIONS

1. That the Committee approve the 2007-2008 Report to Pensioners and Contributors.
2. That the Committee approve the 2007-2008 Report to Pensioners and Contributors.

REPORT DETAIL

- 1 At the then called Investment panel meeting, held on the 3rd April 2002,

Members agreed the Best Value Review Action Plan. Under the heading 'monitoring' it was agreed that 'information should be provided on the pension fund to scheme members of the fund. Production of the booklet also complies with 'The Myner's Report', recommended principle of best practice (on regular reporting) in managing Pension Fund investments.

2. The attached report will take the form of a short booklet to be included with the Annual Benefit Statements. It was produced by Corporate Finance (Pensions) in consultation with the Pensions Administration section.

Financial Implications and Risks:

The estimated cost of the production of the booklets is approximately £1,600.00. This cost will be met from the Pension Fund.

Legal Implications and Risks:

None arise from this report.

Human Resource Implications and Risks:

None arise from this report.

Equalities and Social Inclusion Implications and Risks:

None arise from this report.

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CHERYL COPPELL
Chief Executive

Background Papers

2007/2008 Statement of Accounts.

APPENDIX A



Your Pension

*Report to Pensioners and
Contributors 2007 - 2008*

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 2008 was as follows:

31st March	2008	2007
Contributing employees	5,803	5,664
Pensioners	4,587	4,468
Deferred pensioners	3,094	2,762

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 1st 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.

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.

Here are the pay bands from April 2008:

If your Whole time Equivalent pay rate is:	Your contribution rate will be:
Up to £12,000	5.5%
More than £12,000 and up to £14,000	5.8%
More than £14,000 and up to £18,000	5.9%
More than £18,000 and up to £30,000	6.5%
More than £30,000 and up to £40,000	6.8%
More than £40,000 and up to £75,000	7.2%
More than £75,000	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 are currently paying a protected rate of 5%, the rate you pay will be increased on a phased basis from 1st April 2008, bringing it into line with all other Scheme members by 1st April 2011 as shown in the following table:

If you are currently paying a protected rate of 5%	
From:	Your contribution rate will be:
1 st April 2008	5.25%
1 st April 2009	5.5%
1 st April 2010	6.5% or (if lower) the relevant rate from the pay band table
1 st April 2011	The relevant rate from the pay band table

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 21.5% of salary in 2007/2008. The Council's annual contribution is reviewed every three years. The latest review was based on data as at 31st March 2007 and will effect employer contribution 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.

Following a major restructure of the investment management of the fund during 2004/05 the fund's assets were split into five separate mandates and the responsibility for the day to day investment of the assets was delegated to five managers. The five managers appointed from February 2005 were Standard Life Investments, Alliance Bernstein, UBS Global Asset Management, Western Asset Management (previously Citigroup) and Royal London Asset Management. Following an investment strategy review taking place during 2008/09 the fund may be subject to further restructuring.

GOVERNANCE COMPLIANCE STATEMENT

On the 30th 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. (Within 'Council and Democracy', 'About council tax and our finances', '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. 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.

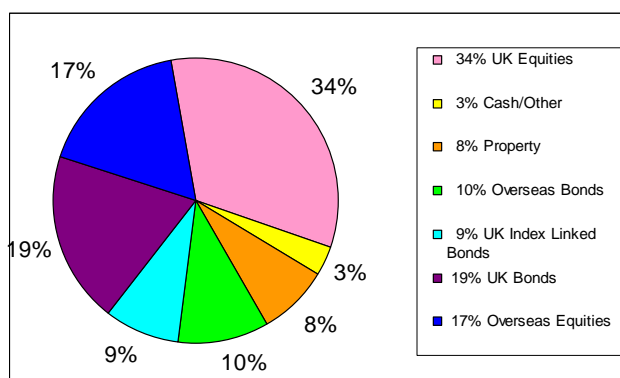
Both of these statements have been published on the Council's website at www.havering.gov.uk. (Within 'Council and Democracy', 'About council tax and our finances', 'Havering Pension Fund')

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 31st March 2008 fell by 5.1% to £344.9 million compared to 2006/07.

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

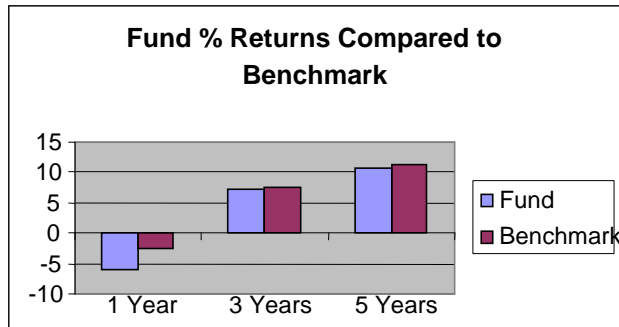


INVESTMENT PERFORMANCE

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 31st March 2008 at (5.9%) under performed the Tactical Benchmark of (2.4%) by (3.6%).



The fund has been exposed to unprecedented market volatility during 2007/08 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

An extract from the Pension Fund Accounts is shown below:

Net Asset Statement

	31/03/08 £'000	31/03/07 £'000
Market value of investments	344,891	363,544
Current assets less liabilities	4,017	2,604
Net assets	348,908	366,148

Income and Expenditure Statement

	2007/2008 £'000	2006/2007 £'000
Income		
Employee contributions	5,472	5,284
Employer contributions	19,491	18,382
Transfer values received	4,178	3,574
Income from investments	11,686	10,479
Total	40,827	37,719
Expenditure		
Pensions and benefits	(22,719)	(21,028)
Transfer values paid	(1,660)	(2,246)
Administration expenses	(580)	(534)
Investment management Expenses	(1,153)	(1,195)
Total	(26,112)	(25,003)
Surplus available for investment	14,715	12,716
Change in market value of investments	(31,955)	12,596
Net increase/(decrease) in Fund	(17,240)	25,312

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. (Within 'Council and Democracy', 'About council tax and our finances', '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 and employing authorities. This Statement has been published on the Council's website at www.havering.gov.uk. (Within 'Council and Democracy', 'About council tax and our finances', '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 7th 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 (Within 'Council and Democracy', 'About council tax and our finances', 'Havering Pension Fund')

PENSION ADMINISTRATION

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

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

New Look Pension Scheme

From 1st 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.

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.

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.

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

As a member of the LGPS, should you die in service, a payment called a death grant is payable to your nominated beneficiary or beneficiaries. This is currently equal to three years pensionable pay.

You are able to nominate the recipient of any death grant that becomes payable, and nomination forms are available from the Pension Office.

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 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.

INFORMATION FOR BOTH CONTRIBUTING 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, 4th Floor
Romford, RM1 3DS

Telephone 01708 432978 / 2981 / 2192

Email: 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

Other useful addresses:

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

The Pension Service website –
www.thepensionsservice.gov.uk



MEETING	DATE	ITEM
PENSIONS COMMITTEE	4 November 2008	14

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: REVIEW OF THE PENSION FUND ACTUARY

SUMMARY

This report reviews the performance of the Actuary in the last calendar year.

RECOMMENDATIONS

It is recommended that the Committee: -

Notes the views of officers on the performance of the Actuary and makes any comment on the report which it considers appropriate.

REPORT DETAIL

1 BACKGROUND

- 1.1 At its meeting of 3rd February 2004, the Investment Committee appointed Hewitt Bacon and Woodrow (now known as Hewitt Associates) to provide actuarial services to Havering in respect of the Pension Fund following a

competitive tender process. Hewitt's were appointed for the period from 1st April 2004 to 31st March 2010.

2 REVIEW OF THE PERFORMANCE OF THE ACTUARY

2.1 The production of the triennial valuation is the key deliverable from the Actuary along with regular funding updates and annual calculations required for the Council's statement of accounts under the Local Authority Statement of Recommended Practices. The Actuary is also required to provide advice regarding changes in legislation within the Pension Fund arena.

The following criteria used at the evaluation are relevant to continue to use in evaluating performance:

- Expertise and skills
- Specific LGPS experience
- Service delivery
- Quality of management and information
- Approach to partnership working

2.2 Regular review by client is best practice and expected under the Procurement Framework. Since their last review in November 2007, the Actuary has undertaken a number of functions as follows:

- a) Attended Pensions Committee and officer level meetings.
- b) Completed the 2007 triennial actuarial valuation and delivered training on the results of the valuation to committee members.
- c) Produced annual accounting disclosures for inclusion in the Council's annual statement of accounts.
- d) Provided data to the fund's investment adviser in preparation for their Asset Liability modelling.
- e) Provision of data for government departments
- f) Provided a number of newsletters on issues concerning Local Government Pension Schemes.

2.3 A review of performance for 2007/08 on the specific points above is set out below:

CRITERIA	ASSESSMENT
Experience & Skills	The actuaries identified a problem with how the Fund's liabilities from the 31 March 2004 actuarial valuation had been rolled forward to 31 March 2005 and adjusted for the actuarial assumptions required under the accounting standard FRS17, for the purpose of disclosing

	<p>pension costs in the Borough's annual report and accounts.</p> <p>As a result the Fund's liabilities shown in the Borough's balance sheet as at 31 March 2005 were understated. This fed through into similar understatements in 2006 and 2007.</p> <p>Because of the way that pension costs are treated in the Borough's accounts, this had no impact on General fund balances or the future level of pension fund contributions.</p> <p>The actuaries restated the figures affected free of charge and as a gesture of good will, agreed an additional fee discount of £6,000 (before VAT). This more than covered the cost of production of the original figures.</p>
Specific LGPS experience	Excellent
Service Delivery	Response times are excellent as is the service.
Quality of management and information	Excellent
Approach to partnership working	Work closely with Havering supporting and advising.

3 Conclusion

Officers are very satisfied with the service that Hewitt are providing, they have confidence in the advice being given and have developed a good working relationship with Hewitt.

Financial Implications and Risks:

Fees are charged for the time spent on services, taking into consideration the complexity of the service provided, and the level of staff skill and expertise required. The cost of the actuarial services for the year to March 2008 was £63k which

includes £35k for the 2007 actuarial valuation. £17k was recharged to the other employers within the fund and, hence, this is not all borne by the Havering Pension Fund. Costs are met from the Pension Fund.

Legal Implications and Risks:

None arising directly from this report.

Human Resource Implications and Risks:

None arising directly from this report.

Equalities and Social Inclusion Implications and Risks:

Staff Contact:	Debbie Ford
Designation	Pension Fund Accountant
Telephone No:	01708 432569
Email:	Debbie.ford@haverling.gov.uk

CHERYL COPPELL
Chief Executive

Background Papers

None.



MEETING	DATE	ITEM
PENSIONS COMMITTEE	4 November 2008	15

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: PENSION FUND ANNUAL REPORT- YEAR ENDED 31ST MARCH 2008

SUMMARY

This report includes items which are required to be published under the LGPS (Administration) Regulations 2008 as part of a Pension Fund Annual Report.

RECOMMENDATIONS

That the Committee agree the 2007/08 Pension Fund Annual report.

REPORT DETAIL

1. Background

1.1 The new LGPS (Administration) Regulations 2008 which commenced from 1 April 2008 contains a requirement to publish a 'Pension Fund Annual Report'. This is to be published by no later than 1st December following the accounting year, therefore a report covering the 2007/08 reporting period should be published by the 1st December 2008.

1.2. At the committee on the 25th September it was reported that the first formal

pension fund annual report should cover the 2007/08 reporting period but it has subsequently transpired that the first formal report should cover the 2008/09 reporting period and be published by no later than 1 December 09. To demonstrate best practice the authority will publish an annual report for the 2007/08 reporting period a year in advance of the regulations.

- 1.3 Communities and Local Government (CLG) issued a covering letter in June 2007 in which they state that as an alternative to publishing a hard copy of the report authorities will be able to 'sign post' the individual items in a simpler document which can be 'published' on the website. They also state that the word 'publish' is to be given a wider meaning in that it is to make the report accessible or available.
- 1.4 As reported to members at the previous meeting on the 25 September the authority is in the main already compliant with regulations by publishing the contents of an annual report as separate documents. For ease of reference and cost members agreed to merge the individual documents into one report, which has produced a 55 page report.
- 1.5 Members have already seen and approved the individual documents that make up the contents of the annual report so it was distributed to members via email to save paper.
- 1.6 Once agreed the report will be published and available on the Council's website.

Financial Implications and Risks:

Whilst there were no design and printing costs, a small amount of officer time was associated with the merging of existing individual documents into one report.

Legal Implications and Risks:

None arise from this report.

Human Resource Implications and Risks:

None arise from this report.

Equalities and Social Inclusion Implications and Risks:

None arise from this report.

Staff Contact:	Debbie Ford
Designation	Pension Fund Accountant
Telephone No:	01708 432569
Email:	Debbie.ford@haverling.gov.uk

CHERYL COPPELL
Chief Executive

Background Papers

Working papers held within the Corporate Finance Section.