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# PENSIONS COMMITTEE SUPPLEMENTARY AGENDA

## 25 June 2024

The following report is attached for consideration and is submitted with the agreement of the Chairman as an urgent matter pursuant to Section 100B (4) of the Local Government Act 1972

**5 PENSION FUND MONITORING QUARTER END 31 MARCH 2024** (Pages 3 - 62)

Attached

**6 PENSION FUND ACCOUNTS** (Pages 63 - 104)

Attached

**7 2024-27 BUSINESS PLAN & 2023-24 ANNUAL REPORT** (Pages 105 - 146)

Attached

**9 REVIEW OF PENSIONS FUND ADMISSIONS POLICY** (Pages 147 - 160)

Attached

**Zena Smith**
**Head of Committee & Election Services**

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Havering
LONDON BOROUGH

**PENSIONS COMMITTEE** **25 June 2024**

| | |
|---|---|
| **Subject Heading:** | **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 2024** |
| **CLT Lead:** | **Kathy Freeman** |
| **Report Author and contact details:** | ***Debbie Ford***<br>***Pension Fund Manager (Finance)***<br>***01708 432 569***<br>***Debbie.Ford@havering.gov.uk*** |
| **Policy context:** | Pension Fund performance ("the Fund") is regularly monitored to ensure investment objectives are being met and to keep the committee updated with Pension issues and developments. |
| **Financial summary:** | This report comments upon the performance of the Fund for the period ended 31 March 2024 |

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

| | |
|---|---|
| Communities making Havering | [X] |
| Places making Havering | [X] |
| Opportunities making Havering | [X] |
| Connections making Havering | [X] |

**SUMMARY**

This report provides an overview of how the Fund's investments are performing, how the individual Investment Managers are also performing against their set targets and any relevant Local Government Pension Scheme (LGPS) updates for the quarter ending **31 March 2024**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund's value increased by **£37.9m** over the quarter. The overall fund performance of 3.67% underperformed the tactical benchmark by -0.38% and outperformed the strategic benchmark by 5.06%.

The Fund's performance of 3.67% was slightly behind the tactical benchmark but remains ahead of the strategic benchmark over the longer time periods.

Equities continued to perform strongly over the first quarter of the year and as a result, all the Funds equity mandates performed positively and rose in value.

The LCIV PEPPA Fund was the best performing allocation over the quarter, and over the last 12 months.

Real gilt yields rose over the quarter meaning the Fund's RLAM index-linked gilt mandate decreased in value.

The value of the Fund's liabilities is expected to have fallen due to this over the same period (as proxied by the Fund's strategic benchmark).

Overall fund performance was positive, but the Fund underperformed the tactical benchmark over the quarter.

The Absolute Return mandate was the primary contributor to this underperformance given its defensive positioning. The LCIV Global Alpha Growth Paris Aligned Fund was also behind benchmark.

Most mandates are measured relative to cash-plus/inflation-plus comparators, but whilst mandates demonstrated underperformance, most delivered positive absolute returns.

Property capital value declines slowed over the quarter and offsetting income returns meant wider property markets returned slightly positively. The Triton Fund underperformed over the quarter although longer-term returns are closer to benchmark.

The general position of the Fund is considered plus other matters including any current issues as advised by Hymans. The manager attending the meeting will be:

**Royal London - Bonds Manager**

Hymans will discuss the Fund's performance after which the manager will be invited to join the meeting, make their presentation and answer any questions.

Hymans and Officers will discuss with Members any issues arising from the monitoring of the other managers.

## RECOMMENDATIONS

That the Committee:

1) Consider Hymans Market Background, Strategic Overview and Manager Performance Report (Appendix A)
2) Consider Hymans Performance Report and views (Appendix B **Exempt)**
3) Receive presentation from the Funds Bonds Manager (Royal London) for an overview on the fund's performance (Appendix C – **Exempt**)
4) Consider the quarterly reports sent electronically, provided by each fund manager.
5) Note the analysis of the cash balances.

## REPORT DETAIL

**1.** Elements from Hymans report, which are deemed non-confidential, can be found in **Appendix A.** Opinions on fund manager performance will remain as exempt and shown in **Appendix B.**

**2.** Where appropriate topical LGPS news that may affect the Fund will be included.

**3.** We welcome feedback and suggestions that will help members gain a better understanding of the reports. Hymans report at Appendix A now includes a one-page summary highlighting key performance takeaways over the quarter.

**4. BACKGROUND**

a. The Committee adopted an updated Investment Strategy Statement (ISS) in September 2023.

b. The objective of the Fund's ISS is to deliver a stable long-term investment return in excess of the expected growth in the Fund's liabilities.

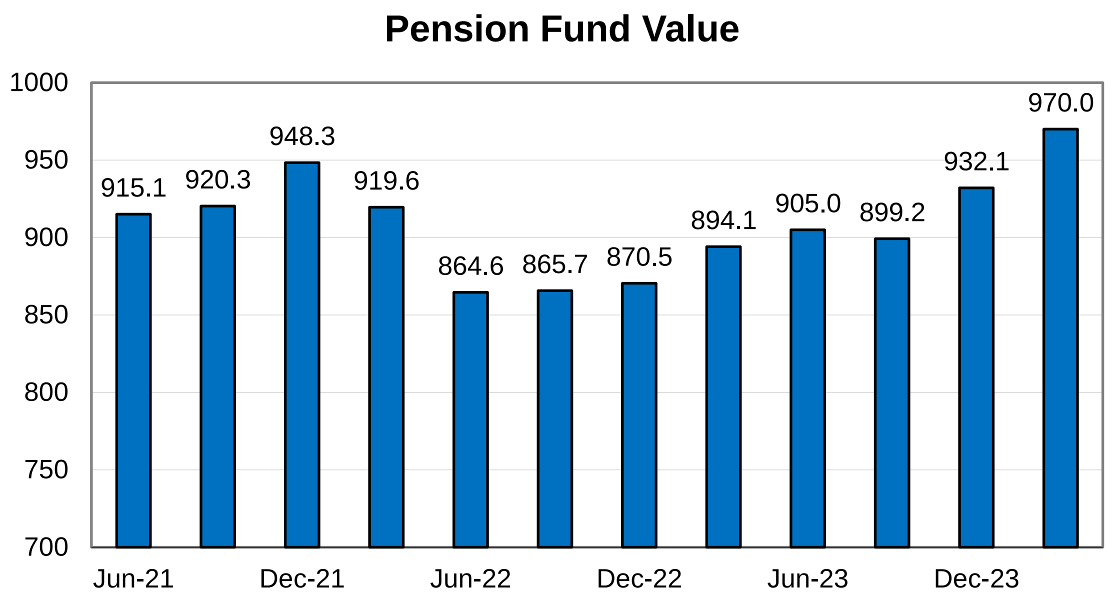
c. The Fund's assets are monitored quarterly to ensure that the long-term objective of the ISS is being delivered.

d. We measure returns against tactical and strategic benchmarks.

## 5. PERFORMANCE

a. The Fund asset value at 31 March 2024 was **£970.0m** compared with £932.1m at 31 March 2024; an **increase of £37.9m**. This movement is attributable to increases across most asset classes and a decrease in cash Foreign Exchange (FX) (£4.1m).

Chart 1 – Pension Fund Asset Value




*Source: Northern Trust Performance Report*

b. The overall net performance of the Fund against the **Tactical Benchmark** - Each asset manager has been set a specific (tactical) benchmark as well as an outperformance target against which performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.

Table 1: Tactical Performance

| | **Quarter to 31/03/2024 %** | **12 Months to 31/03/2024 %** | **3 Years to 31/03/2024 %** | **5 years to 31/03/2024 %** |
|---|---|---|---|---|
| Fund | 3.67 | 7.38 | 2.69 | 5.89 |
| Benchmark | 4.06 | 11.69 | 6.74 | 7.15 |
| *Difference in return | -0.38 | -4.31 | -4.05 | -1.25 |

*Source: Northern Trust Performance Report*
*Totals may not sum due to geometric basis of calculation and rounding*

c. The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts + 1.8% Net of fees).

The strategic benchmark represents the expected rate at which the Fund's liabilities are growing (or falling) in value. The asset performance relative to the strategic benchmark performance gives an indication of whether the funding level has improved or weakened over a given period.

Table 2: Strategic Performance

| | Quarter to 31/03/2024 % | 12 Months to 31/03/2024 % | 3 Years to 31/03/2024 % | 5 years to 31/03/2024 % |
|---|---|---|---|---|
| Fund | 3.67 | 7.38 | 2.69 | 5.89 |
| Benchmark | -1.38 | -3.32 | -8.10 | -3.42 |
| *Difference in return | 5.06 | 10.71 | 10.79 | 9.32 |

*Source: Northern Trust Performance Report*

*Totals may not sum due to geometric basis of calculation and rounding.

d. Further detail on the Fund's investment performance is detailed in **Appendix A** in the performance report which will be covered by the Investment Adviser (Hymans)

## 6. CASH FORECAST

a. At the end of March 2024, the cash balance stood at £24.3m, which is invested with LBH and available for operational cash requirements as needed.

Table 3: Cash Flow Forecast

| | ACTUALS TO 31/03/2024 £000 | FORECAST Year to 31/03/25 £000 | Year to 31/03/26 £000 | Year to 31/03/27 £000 |
|---|---|---|---|---|
| Balance b/f | 16,201 | 24,276 | 26,249 | 27,290 |
| Benefits paid | (33,168) | (35,391) | (36,806) | (38,279) |
| BACS expenses* | (10,079) | (10,684) | (11,325) | (12,004) |
| Lump sums by faster payment | (2,659) | (2,739) | (2,821) | (2,906) |
| Transfers in | 6,336 | 6,652 | 6,985 | 7,334 |
| Contributions received** | 42,018 | 42,858 | 43,715 | 44,590 |
| Pension strain | 858 | 875 | 893 | 910 |
| Interest | 989 | 400 | 400 | 400 |
| Sweep | 3,781 | | | |
| Balance c/f | 24,276 | 26,249 | 27,290 | 27,336 |

* BACS expenses also includes grants i.e. lump sums made to members via payments team

** Contributions received from LBH are net of pension payroll deductions (e.g. HMRC)

b. Members updated the cash management policy at their committee meeting on the 19 March 2024.

c. An operational cash balance in the range of £5m to £13m has been set. In the event that cash levels rise above the upper limit of £13m cash will be invested in the most underweight liquid asset allocation. Currently cash is being for reinvestment/rebalancing within the investment strategy.

d. Cash balance may be retained above the upper limit at the discretion of the Section 151 officer.

## 7. REPORTING ARRANGEMENTS

a. At each reporting cycle, the Committee will see a different fund manager until members have met them all unless there are performance concerns that demand a manager be brought back again for further investigation.

b. Summary fund manager reviews are included within Hymans performance report at **Appendix A.**

c. All fund manager's quarterly reports are distributed electronically prior to this meeting. Where applicable, quarterly voting information, from each fund manager, detailing the voting history of the fund managers is also included in the manager's quarterly report.

d. The fund manager attending this meeting is **Royal London** who manage the **Multi Asset Credit Fund** and **Index Linked Bonds**; their report is attached at **Appendix C (Exempt).**

## 8. FUND UPDATES:

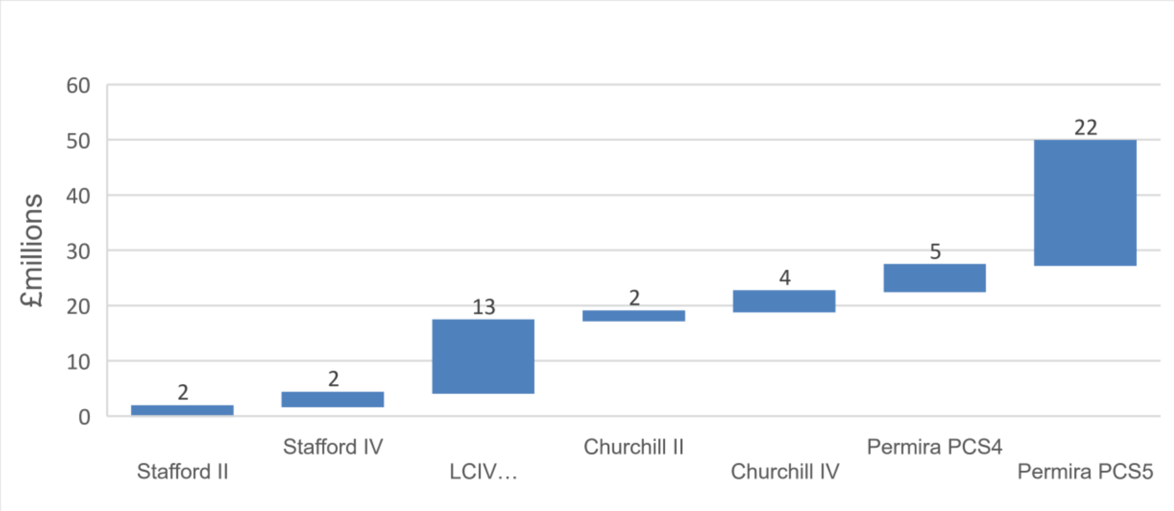
### 8.1 Changes since the last report and forthcoming changes/events:

a. In the quarter ending 31 March 2024, the Fund completed £5.5m of capital draw down requests.

b. The capital calls were funded with cash received from investment income which is held with the Custodian

c. At 31 March 2024 there was £50m of outstanding capital commitments as follows:

Chart 2 – Outstanding capital commitments at 31 March 2024




8.2 **London CIV UPDATES -**The LCIV is the appointed asset pool manager for the Fund and the governance of investments held with the LCIV is their responsibility. It is therefore crucial that regular communication and contact is upheld and activity updates are reported and covered here as follows:

**8.2.1 LCIV meetings (since the last report)**

a. Virtual weekly "Coffee with the CIO" are held to share news, learn and develop opportunities. Latest episode 9 was held on 8 May 2024. Recordings can be made available to members on request.

b. Business Update Meetings take place monthly (currently held virtually) – meetings were held on the 21 February 2024 and 27 March 2024 and 25 April 2024. Recordings can be made available to members on request.

c. Each business update meeting includes an update from LCIV Chief Officers covering current fund offerings, fund performance; fund updates (including those funds for which enhanced monitoring is in place) and the pipeline for new fund launches. In addition, relevant topical issues are included as appropriate. Highlights as follows:

- **Fund Monitoring Updates**: All Havering investment funds are on normal monitoring. The next **LCIV Absolute Return Fund** review is due during Q2 24 and an investor update expected July 2024.
- **Fund Activity - New/Changes to Sub Fund Launches:**
  - *New:* Natural Capital/ Nature Based Solution – Stage 1 (Initiation). Investor Disclosure Document being finalised. Detailed work continues with a target of June 24 to make the fund available with first close expected September 24. Havering currently has no plans to invest in this fund

- *New*: Private Debt II Fund – Stage 1 (Initiation). Investor Disclosure Document being finalised. Detailed work continues with a target of June 24 to make the fund available with first close expected September 24. The Fund will consider this mandate when more details are available.
- *New:* Global Equity Value – Launch stage – Manager selected, documentation being finalised in preparation for FCA submission in April 24. Havering has no plans to invest in this fund
- *New:* Buy and maintain Fund (formerly known as Sterling Credit) – has been launched. Implementation planned for April 2024. Targeting June 24 launch. Havering currently has no plans to invest in this fund.
- *New: Indirect Property Pooling* – Sub manager selection has been concluded, moving forward with due diligence checks and details on delivery timelines to be issued in due course but aiming to go live at end of the year. Havering currently has no plans to invest in this fund.
- *Change:* LCIV Renewable Infrastructure – 7th & 8th manager due diligence in progress, expected Q2 24. Havering already invest in this fund which will see new managers added due to demand.
- *Change:* LCIV PEPPA fund – Index name change to S&P World Net Zero 2050 Paris Aligned ESG index (GBP) on 27 February 2024. No changes to the index components or calculation methodology. Havering invest in this fund.
- *Change:* LCIV Global Bond Fund – Approvals obtained to enhance the ESG credentials. Changes will be implemented once a revised IMA has been executed. New Investment management fees and LCIV fees schedule was introduced in May 2024 with an overall slight reduction of 0.1%. Havering invests in this fund.

- **2024/25 budget and business Plan:**
    - Shareholders approved the 2024/25 budget and business plan covering both financials and business plans
    - 2023/24 - Manager fee savings to investors of £3.4m (£138k for Havering)
    - 2023/24 – costs managed in line with budget
    - Reduced the Development Funding Charge – first reduction since introduction in 2017 (reduced from £85k in 22/23 to £75k in 23/24 and £73k in 24/25).
    - 2024/25 – will work with funds to develop an investment and services multi-year plan
    - 2024/25 – estimated income of £400m from advisory activities following additional regulatory permissions approval and net client inflows of £1.6bn
    - LCIV able to meet Capital Requirements in line with regulations

## 8.3 LGPS GENERAL UPDATES:

### 8.3.1 Annual Report Guidance

a. New Annual report guidance issued March 2024, jointly produced by The Scheme Advisory Board (SAB), the Chartered Institute of Public Finance and Accountancy (CIPFA) and Department of Levelling Up, Housing and Communities (DLUHC).

b. Guidance will apply to the 2023/24 annual reports and later years. For the 2023/24 reports, funds are expected to use best endeavours to comply fully with the new guidance but can exercise judgment where, because of changes to previous content would require disproportionate effort or cost.

c. There are a number of areas of change from the previous guidance and officers will assess these changes as part of their planning and preparation for producing the Annual report.

d. Annual report must be published before the 1 December.

### 8.3.2 Economic Activity of Public Bodies (Overseas Matters)

a. The Economic Activity of Public Bodies (Overseas Matters) Bill (EAPB (OM) also known as the Boycotts, Divestments and Sanctions Bill, was discussed for a second time in the House of Lords on 17 April 2024.

b. The Bill seeks to prevent public authorities making decisions or statements of intent about investment which result from political or moral disapproval of the actions of a foreign state which have an overseas impact,

c. The Bill will not prevent public authorities from complying with formal UK Government legal sanctions, embargoes and restrictions.

e. The Local Government Association (LGA) has published a technical briefing commenting on proposed amendments and current concerns with the Bill.

f. The LGA Technical briefing states they do not expect this Bill to have any significant effects on local authority investment or procurement practices but have significant concerns about the effects the current drafting will have on the operation of the Local Government Pensions Scheme (LGPS).

g. To date, none of the amendments proposed by peers, or by the LGA, have been incorporated into the Bill.

a. Officers will provide updates as appropriate

### 8.3.3 Cost Control Mechanism 2020

a. The Local Government Pension Scheme cost control valuations at 2020 report was published on the 29 February 2024 (Publication of this report was delayed concerning the outcome of McCloud appeals).

b. The cost control mechanism was introduced following the recommendations of the Independent Public Pension Commission in 2011. Its aims were to:

- Ensure a fair balance of risk between members of public service pension schemes and taxpayers with regard to the costs of these schemes.
- Maintain the value of such schemes to their members.
- Provide stability and certainty of member benefit and contribution levels, with changes only being triggered by ‘extraordinary, unpredictable’ events.

c. The mechanism is calculated by measuring the cost of providing reformed scheme benefits, known as the core cost cap cost of the scheme. If this cost changes by more than 3% of pensionable pay compared to its original level (known as the employer cost cap), a ‘breach of the cost cap corridor’ is said to have occurred. An ‘economic check’, using what is known as the economic cost cap cost, is then carried out, which is based on long term economic conditions

**d.** When the wider economic situation is taken into account, the cost cap corridor is not breached and as a result there is **no requirement for DLUHC to consult on changes to the scheme.**

### 8.3.4 Training Requirements - UPDATE

a. The Fund subscribes to the LGPS Online Learning Academy (LOLA) Launched by our Actuaries (Hymans) – this is an online platform designed to support the training needs of Pensions Committees, Local Pension Boards and Officers. The training is split into a number of modules covering the CIPFA Knowledge & Skills Framework (KSF) and The Pension Regulator’s Code of Practice 14. Each module contains short ‘video on demand’ presentations with supplemental learning materials and quizzes.

b. In addition to an induction training session, members are expected to complete the LOLA training modules v1.0 (modules 1- 5) or LOLA V2.0 Training modules (1- 8) in support of meeting the Committee procedure rules.

c. The Fund transitioned over to LOLA v2.0 on the **1 October 2023.**

d. New committee members yet to complete modules under version 1.0 will now be required to undertake the LOLA v2.0 to meet the committee procedure rules.

e. New committee members will have 6 months from **1 October 2023** or date of joining to complete the LOLA v2.0 modules.

f. Officers will provide the Committee with regular progress reports allowing it to easily evidence member's development and progress, as follows:

Chart 3 – Pension committee progress LOLA v1

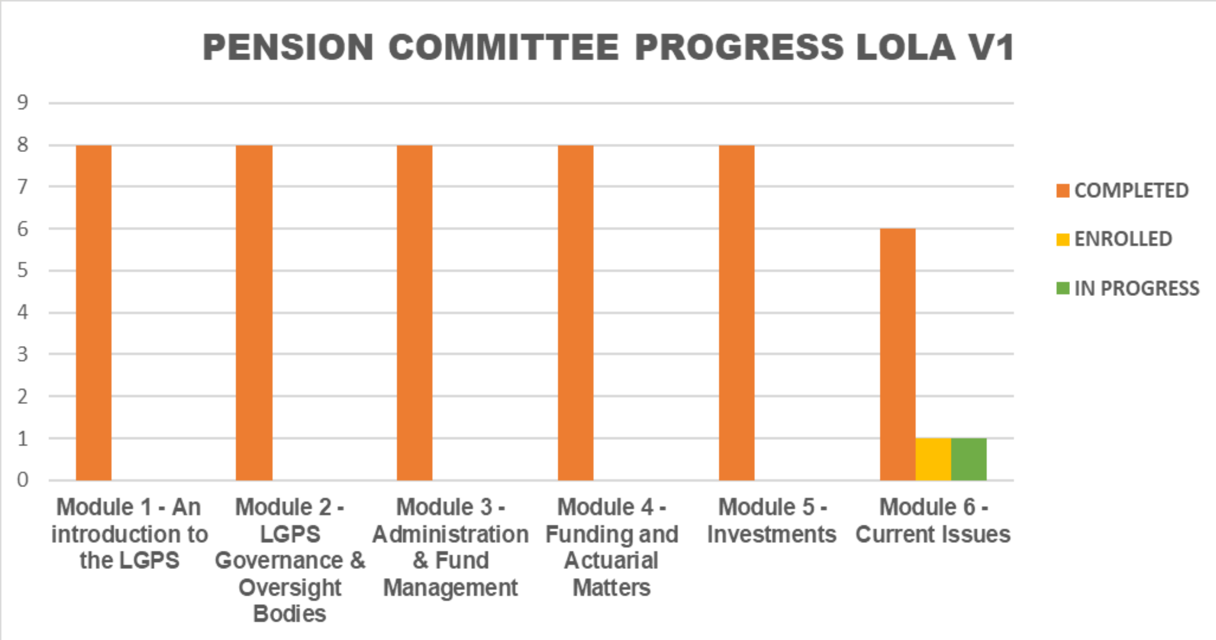
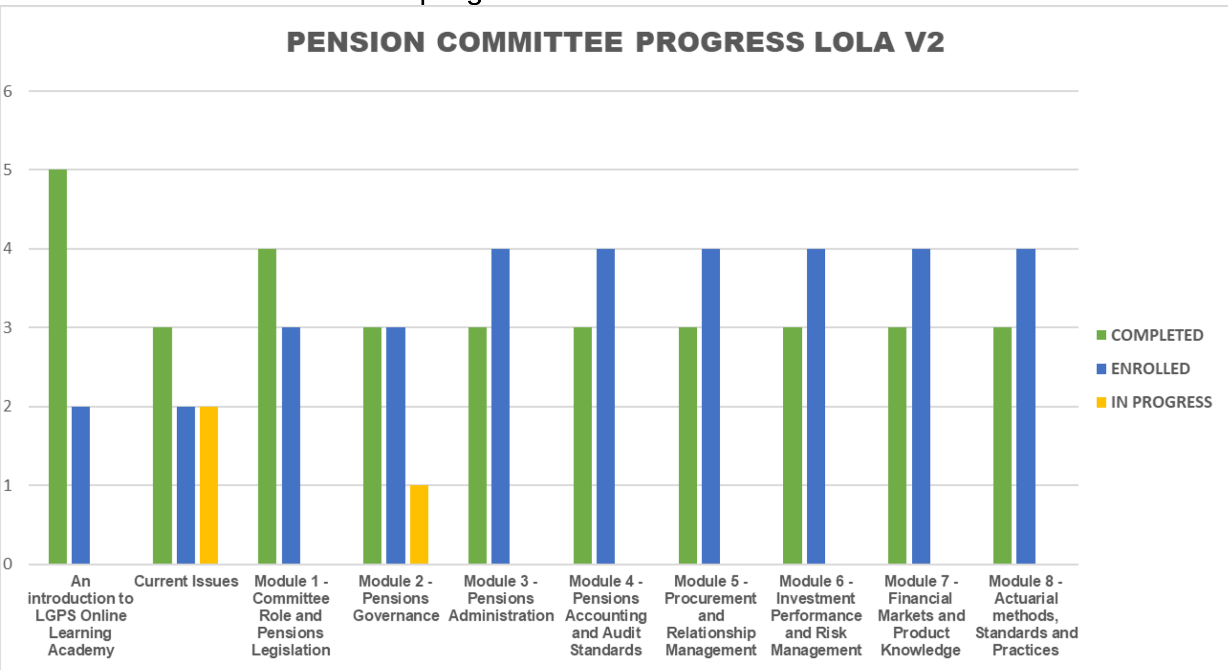



Chart 4 –Pension Committee progress LOLA v2



## IMPLICATIONS AND RISKS

**Financial implications and risks:**

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund and employers in the Fund

**Legal implications and risks:**

None arising directly from consideration of the content of the Report.

**Human Resources implications and risks:**

There are no immediate HR implications.

**Equalities implications and risks:**

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;

(iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An EqHIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected.

## BACKGROUND PAPERS

None

# London Borough of Havering Pension Fund



## Q1 2024 Investment Monitoring Report

Simon Jones – Partner

The person responsible for this advice is Simon Jones.  Members of the London Borough of Havering client team who contributed to the production of this paper but are not responsible for the advice are Meera Devlia and Jennifer Aitken.



HYMANS ROBERTSON

This section outlines the key points included in this report.

The tactical benchmark in the Fund Performance table represents the aggregate performance target of the Fund's assets and is a measure of relative outperformance / underperformance from the asset managers.

The strategic benchmark represents the expected rate at which the Fund's liabilities are growing (or falling) in value. The asset performance relative to the strategic benchmark performance gives an indication of whether the funding level has improved or weakened over a given period.



## Key Takeaways

| | |
|---|---|
| **Equity assets continued to rally** | • Equities continued to perform strongly over the first quarter of the year and as a result, all the Funds equity mandates performed positively and rose in value.<br>• The LCIV PEPPA Fund was the best performing allocation over the quarter, and over the last 12 months |
| **Long term real gilt yields rose, pushing down expected liability values.** | • Real gilt yields rose over the quarter meaning the Fund's RLAM index-linked gilt mandate decreased in value.<br>• The value of the Fund's liabilities is expected to have fallen due to this over the same period (as proxied by the Fund's strategic benchmark). |
| **Overall fund performance was positive, but the Fund underperformed the tactical benchmark over the quarter.** | • The Fund's performance of 3.7% was slightly behind the tactical benchmark of 4.1%<br>• The Absolute Return mandate was the primary contributor to this underperformance given its defensive positioning. The LCIV Global Alpha Growth Paris Aligned Fund was also behind benchmark. |
| **Positive returns were observed across most of the Fund's real asset and private debt mandates.** | • Most mandates are measured relative to cash-plus/inflation-plus comparators, but whilst mandates demonstrated underperformance, most delivered positive absolute returns.<br>• Property capital value declines slowed over the quarter and offsetting income returns meant wider property markets returned slightly positively. The Triton Fund underperformed over the quarter although longer-term returns are closer to benchmark |

## Fund Performance

| | Last 3 months (%) | Last 12 months (%) | Last 3 years (%) | Last 5 years (%) |
|---|---|---|---|---|
| **Total Fund Performance** | **3.7** | **7.4** | **2.7** | **5.9** |
| Tactical Benchmark | 4.1 | 11.7 | 6.7 | 7.2 |
| Strategic Benchmark | -1.4 | -3.3 | -8.1 | -3.4 |

## Fund Asset Valuation

| | Fund value (£m) |
|---|---|
| **Q4 2023** | **932.1** |
| **Q1 2024** | **970.0** |

The Fund's assets returned 3.7% over the quarter, slightly underperforming its 4.1% benchmark return.

All equity mandates continued to deliver positive returns, driven by economic optimism and continued enthusiasm for AI. The LCIV Global Alpha Growth Paris Aligned Fund remained behind benchmark for the quarter.

The LCIV Absolute Return Fund returned negatively and underperformed due to its protective positioning over periods of strong equity and credit performance and rising real gilt yields reducing the value of the fund's allocation to gilts over the same period.

IG credit spreads continued to narrow over the quarter and the LCIV Global Bond Fund returned positively – outperforming its benchmark which returned relatively flatly, given real gilt yields also rose over the same period.

Property capital values continued to decline, however, offsetting income returns have meant wider property markets returned positively overall. The Fund's property assets have therefore underperformed wider property markets and their respective benchmarks over the period.

As sub-investment grade spreads continued narrowing, RLAM MAC delivered positive returns but still underperformed its credit benchmark although remains ahead over the longer term.

Despite falling inflation, expectations around fewer and later interest rate cuts in 2024 resulted in real gilt yields rising over the quarter. As a result, the RLAM ILG Fund delivered negative returns – also underperforming its benchmark, given its longer-term positioning.

Please note that all asset performance is in GBP terms and does not make an allowance for currency fluctuations. The total Fund performance includes the impact of the Russell currency overlay mandate. Please note the separate slide for further detail on the Russell mandate, along with asset performance excluding the impact of currency fluctuations.

# Manager Performance

| | *Actual Proportion* | Last 3 months (%) | | | Last 12 months (%) | | | Last 3 years (% p.a.) | | | Since Inception (% p.a.) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Fund | B'mark | Relative | Fund | B'mark | Relative | Fund | B'mark | Relative | Fund | B'mark | Relative |
| **Growth** | 52.6% | | | | | | | | | | | | |
| LGIM Global Equity | 4.3% | 9.1 | 9.1 | **0.0** | 20.9 | 21.0 | **-0.1** | 10.5 | 10.6 | **-0.1** | 12.1 | 12.1 | **0.0** |
| LGIM Emerging Markets | 4.0% | 3.3 | 3.4 | **-0.1** | 6.1 | 6.2 | **-0.1** | -0.7 | -0.4 | **-0.3** | 4.3 | 4.5 | **-0.2** |
| LGIM Future World Fund | 11.1% | 6.0 | 6.1 | **-0.1** | 15.4 | 15.5 | **-0.1** | - | - | - | 5.5 | 5.6 | **-0.1** |
| LCIV Global Alpha Growth Paris Aligned Fund | 16.2% | 8.7 | 9.9 | **-1.1** | 16.0 | 22.5 | **-5.3** | 0.1 | 11.4 | **-10.1** | 12.4 | 12.4 | **-0.1** |
| LCIV PEPPA Passive Equity | 5.7% | 10.6 | 10.6 | **0.0** | 26.2 | 25.7 | **0.4** | - | - | - | 7.4 | 6.3 | **1.0** |
| LCIV Absolute Return Fund | 11.2% | -0.8 | 2.3 | **-3.0** | -6.0 | 9.2 | **-13.9** | 0.7 | 6.5 | **-5.5** | 4.4 | 5.2 | **-0.8** |
| **Income** | **40.2%** | | | | | | | | | | | | |
| LCIV Global Bond Fund | 4.9% | 0.5 | 0.0 | **0.5** | - | - | - | - | - | - | 6.5 | 8.0 | **-1.4** |
| UBS Property | 5.0% | -1.1 | 0.5 | **-1.6** | -2.4 | -0.7 | **-1.7** | 1.3 | 1.5 | **-0.2** | 4.7 | 5.4 | **-0.6** |
| CBRE | 3.3% | 0.6 | 1.8 | **-1.2** | -6.4 | 8.1 | **-13.5** | 5.3 | 11.7 | **-5.8** | 5.1 | 9.1 | **-3.7** |
| JP Morgan | 5.2% | 6.4 | 1.8 | **4.5** | 8.6 | 8.1 | **0.4** | 9.5 | 11.7 | **-2.0** | 8.8 | 9.1 | **-0.3** |
| Stafford Capital Global Infrastructure SISF II | 4.7% | 1.1 | 1.8 | **-0.8** | 2.4 | 8.1 | **-5.3** | 11.2 | 11.7 | **-0.5** | 7.8 | 9.0 | **-1.1** |
| Stafford Capital Global Infrastructure SISF IV | | -1.5 | 1.8 | **-3.3** | 8.7 | 8.1 | **0.5** | 16.3 | 11.8 | **4.1** | 15.0 | 10.8 | **3.8** |
| LCIV Renewable Energy Infrastructure Fund | 1.5% | 0.0 | 1.8 | **-1.8** | -3.4 | 8.1 | **-10.6** | - | - | - | 11.3 | 11.6 | **-0.3** |
| RLAM Multi-Asset Credit | 6.8% | 1.4 | 2.1 | **-0.7** | 8.7 | 10.9 | **-2.0** | 1.5 | 2.5 | **-1.0** | 6.8 | 6.6 | **0.2** |
| Churchill Senior Loan Fund II | 3.6% | 4.2 | 2.3 | **1.8** | 9.2 | 9.2 | **0.0** | 10.7 | 6.5 | **4.0** | 6.6 | 5.7 | **0.8** |
| Churchill Senior Loan Fund IV | | 3.8 | 2.3 | **1.5** | 9.0 | 9.2 | **-0.1** | - | - | - | 10.3 | 7.4 | **2.8** |
| Permira IV | 5.2% | 2.6 | 2.3 | **0.3** | 9.0 | 9.2 | **-0.2** | 7.1 | 6.5 | **0.5** | 5.2 | 5.9 | **-0.6** |
| Permira V | | 3.0 | 2.3 | **0.7** | 9.8 | 9.2 | **0.5** | - | - | - | 7.2 | 8.1 | **-0.9** |
| **Protection*** | **7.3%** | | | | | | | | | | | | |
| RLAM Index Linked Gilts | 2.5% | -4.0 | -2.4 | **-1.6** | -12.2 | -6.8 | **-5.7** | -14.7 | -12.1 | **-2.9** | -10.7 | -8.6 | **-2.2** |
| **Total** | | 3.7 | 4.1 | **-0.4** | 7.4 | 11.7 | **-3.9** | 2.7 | 6.7 | **-3.8** | 5.9 | - | - |

*Please note, Northern Trust provided performance figures for UBS are currently being reviewed and reconciled against UBS provided performance figures over the respective periods. In the coming months, Hymans are to conduct a wider review of Northern Trust provided performance figures for the Fund's mandates against investment manager provided performance figures over the same respective periods.*

*Source: 3m, 12m and 3yr performance returns – Northern Trust and Investment Managers. Individual SI performance returns – Hymans calculated chain-linked. Performance figures for RLAM have been taken from the Investment Manager, rather than Northern Trust.*
*Longer term performance for Baillie Gifford Global Equity and Ruffer Absolute Return funds is inclusive of performance prior to their transfer into the LCIV.*
*LGIM Global Equity mandate was managed by SSGA prior to November 2017 and we have retained the performance history for these allocations. The Fund performance figure includes the effect of the currency hedging mandate managed by Russell.*

**Includes cash at bank and currency hedging*

The Fund's investment strategy is implemented through the London Collective Investment Vehicle ("LCIV"), and retained assets including life funds (with fee structures aligned with LCIV).

The target allocation to LCIV and life funds totals 61.0% of Fund assets. Other retained assets will be delivered through external managers, with the position reviewed periodically.

The chart below right illustrates the underlying asset allocation of the Fund, i.e. taking account of the underlying holdings in the multi-asset funds on a 'look through' basis.

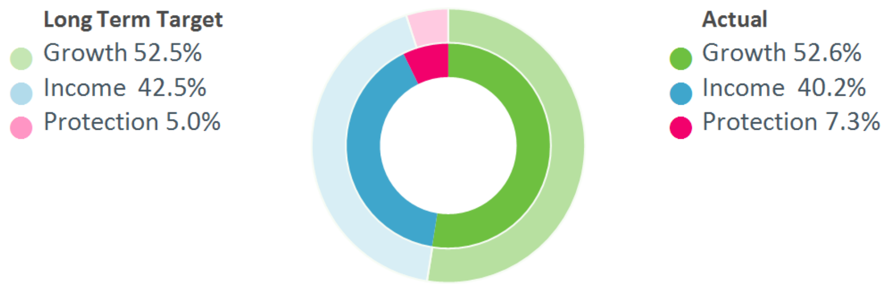
The Fund's overall allocation to equities increased over the quarter to c.43.0% (c.41.5% as at 31 December 2023) as global equities continued to rally over the quarter.

The Fund's overall allocation to gilts decreased over the quarter to c.6.2% (c.7.0% as at 31 December 2023), as both the LCIV Absolute Return Fund and LCIV Global Bond Funds allocations to government bonds decreased over the period – from c.53.9% to c.50.7% and from c.11.1% to c.8.8%, respectively.

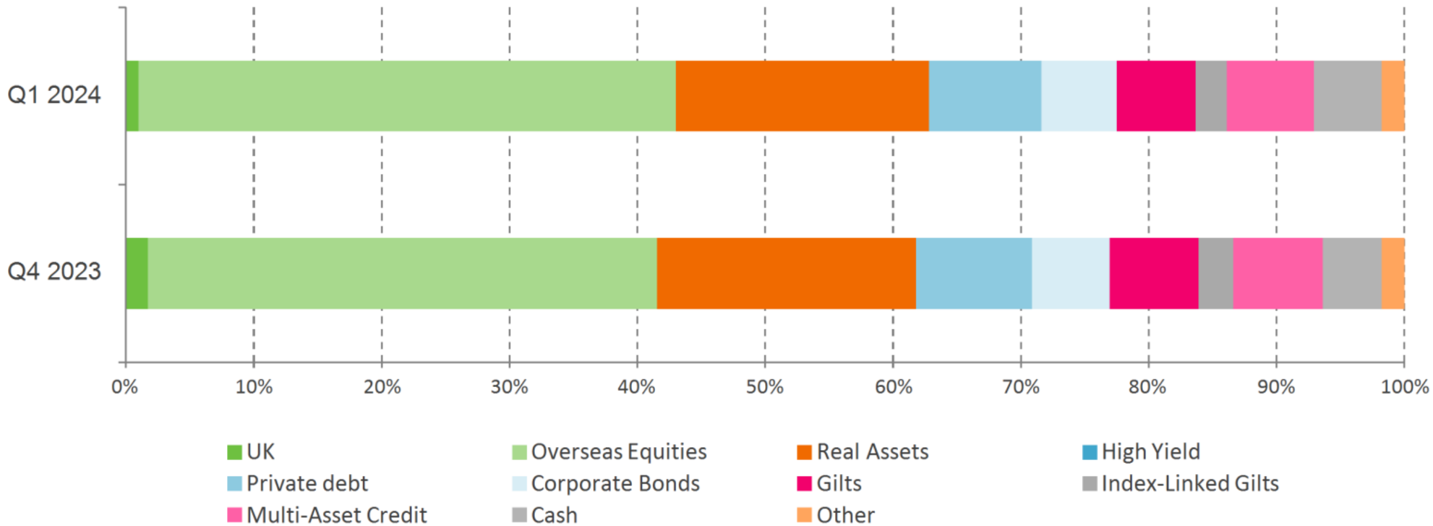
The Fund's overall allocation to real assets, despite the Stafford Capital Global Infrastructure SISF IV LCIV Renewables Fund and LCIV Renewable Energy Infrastructure Fund continuing to draw down capital, decreased over the quarter to c.19.8% (from c.20.3% as at 31 December 2023) as real assets represented a smaller proportion of the Fund's overall assets at quarter-end following the rally in global equities.

The allocations to multi-asset credit, private debt and high yield assets remained relatively unchanged over the quarter.

## Asset Allocation




## Asset Class Exposures



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# Current Investment Implementation

The total value of the Fund's assets increased by £37.9m over the quarter to £970m as at 31 March 2024.

The increase in valuation can be primarily attributed to the Fund's allocation to equities which continued to perform positively.

The Fund's 'Income' assets overall remained relatively unchanged over the period – the slight increase in value primarily due to the draw down of capital to these funds over the period.

The pace of capital value declines, particularly in the office, retail and industrials sectors slowed over the period and as a result, the Fund's CBRE property mandate slightly increased in value. However, the Fund's UBS property mandate still slightly fell in value.

The Fund's lagged JP Morgan valuation continued to increase over the quarter as the mandate returned well over the previous quarter and Sterling further depreciated against the US Dollar over the same period.

Sub-investment grade credit spreads narrowed, European spreads by 0.4% p.a. to 3.5% p.a. and US spreads by 0.2% p.a. to 3.1% p.a. over the quarter, resulting in the RLAM MAC Fund increasing in value.

The Fund's allocation to the LCIV Global Bond Fund and the RLAM ILG Fund, slightly decreased in value over the quarter primarily due to the rise in gilt yields.

The Fund paid the following capital calls during the quarter:

- c.£817k to the LCIV Renewables Fund
- c.£2.2m to the Stafford IV Fund
- c.£2.0m to the Permira V Fund



## Asset Allocation

| Manager | | Valuation (£m) Q4 2023 | Valuation (£m) Q1 2024 | Actual Proportion | Benchmark | Relative |
|---|---|---|---|---|---|---|
| **Growth** | | **481.9** | **509.8** | **52.6%** | **52.5%** | **0.1%** |
| LGIM Global Equity | LCIV aligned | 38.4 | 41.9 | 4.3% | 5.0% | -0.7% |
| LGIM Emerging Markets | LCIV aligned | 37.2 | 38.4 | 4.0% | 5.0% | -1.0% |
| LGIM Future World Fund | LCIV aligned | 101.6 | 107.8 | 11.1% | 10.0% | 1.1% |
| LCIV Global Alpha Growth Paris Aligned Fund | LCIV | 144.7 | 157.3 | 16.2% | 15.0% | 1.2% |
| LCIV PEPPA Passive Equity | LCIV | 50.2 | 55.5 | 5.7% | 5.0% | 0.7% |
| LCIV Absolute Return Fund | LCIV | 109.8 | 108.9 | 11.2% | 12.5% | -1.3% |
| **Income** | | **384.4** | **389.8** | **40.2%** | **42.5%** | **-2.3%** |
| LCIV Global Bond Fund | LCIV | 47.7 | 47.4 | 4.9% | 5.0% | -0.1% |
| UBS Property | Retained | 49.6 | 48.9 | 5.0% | 6.0% | -1.0% |
| CBRE | Retained | 32.3 | 32.5 | 3.3% | 4.0% | -0.7% |
| JP Morgan | Retained | 49.3 | 50.8 | 5.2% | 5.5% | -0.3% |
| Stafford Capital Global Infrastructure SISF | Retained | 43.4 | 45.3 | 4.7% | 3.5% | 1.2% |
| LCIV Renewable Energy Infrastructure Fund | LCIV | 13.3 | 14.2 | 1.5% | 3.5% | -2.0% |
| RLAM Multi-Asset Credit | Retained | 64.8 | 65.7 | 6.8% | 7.5% | -0.7% |
| Churchill Senior Loan Funds | Retained | 35.7 | 34.6 | 3.6% | 3.0% | 0.6% |
| Permira Credit | Retained | 48.3 | 50.5 | 5.2% | 4.5% | 0.7% |
| **Protection** | | **65.8** | **70.4** | **7.3%** | **5.0%** | **2.3%** |
| RLAM Index Linked Gilts | Retained | 24.9 | 23.9 | 2.5% | 5.0% | -2.5% |
| Cash at Bank | Retained | 35.6 | 42.7 | 4.4% | 0.0% | 4.4% |
| Currency Hedging P/L | Retained | 5.3 | 3.7 | 0.4% | 0.0% | 0.4% |
| **Total Fund** | | **932.1** | **970.0** | **100.0%** | **100.0%** | |

*Pooling refers to whether the holding benefits from some form of collective bargaining. LCIV and LCIV aligned reflect mandates aligned with or managed by the LCIV. Other pooled indicates mandates where there are collective LGPS fee arrangements in place. Not pooled indicates mandates outside pooling arrangements.*

*Source: Northern Trust and Investment Managers.*
*Valuation figures for RLAM have been taken from the Investment Manager, rather than Northern Trust*

## Russell Currency Hedging

Russell Investments have been appointed to manage the Fund's currency overlay mandate.

The current policy is to hedge non-sterling exposures in the Fund's private markets mandates. Currency exposure in equity mandates is retained.

At present, 100% of the exposure to USD, EUR and AUD from the private market investments is hedged within any residual currency exposure retained on a de-minimis basis.

The volatility of returns (measured as the standard deviation of quarterly returns since inception) is 4.7% to date when the impact of currency fluctuations is included and only 4.2% when currency movements are stripped out by the Russell currency overlay mandate. This continues to indicate that the Russell mandate is reducing overall volatility and increasing the predictability of returns, as intended.



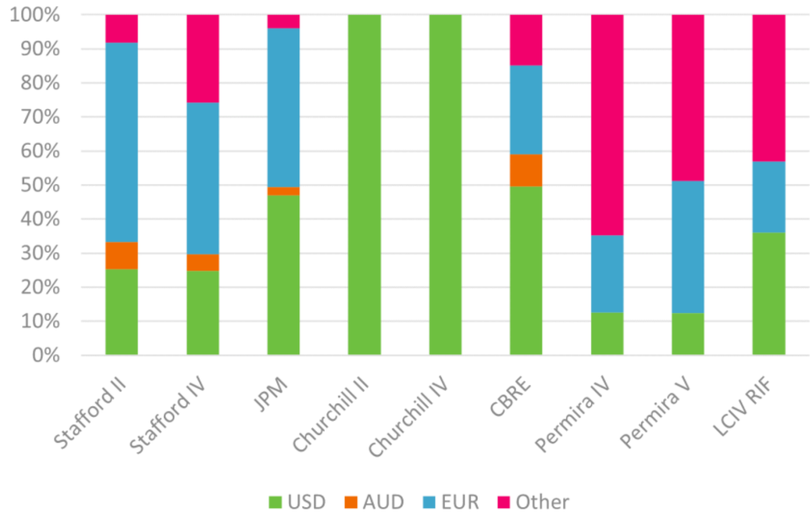
## Q1 2024 Performance

| | Asset return (inc. FX impact) | Currency return (via Russell mandate) | Asset return (ex. FX impact) | BM return | Relative return (ex. FX impact) |
|---|---|---|---|---|---|
| Stafford II | 1.1 | 0.9 | 2.0 | 1.8 | 0.2 |
| Stafford IV | -1.5 | 0.6 | -0.8 | 1.8 | -2.6 |
| JPM | 6.4 | 0.4 | 6.8 | 1.8 | 4.9 |
| Churchill II | 4.2 | -0.9 | 3.2 | 2.3 | 0.9 |
| Churchill IV | 3.8 | -0.9 | 2.9 | 2.3 | 0.6 |
| CBRE | 0.6 | 0.3 | 0.9 | 1.8 | -0.9 |
| Permira IV | 2.6 | 0.7 | 3.2 | 2.3 | 0.9 |
| Permira V | 3.0 | 0.5 | 3.5 | 2.3 | 1.2 |
| LCIV RIF | 0.0 | 0.0 | 0.0 | 1.8 | -1.8 |

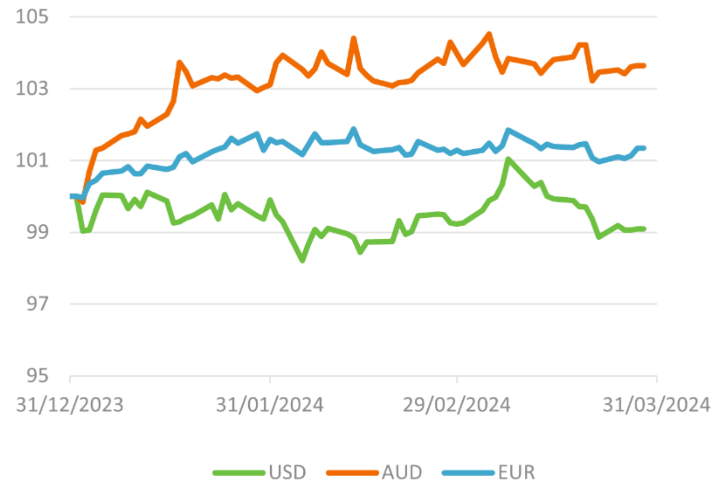
## Performance Since Mandate Inception*

| | Asset return (inc. FX impact) | Currency return (via Russell mandate) | Asset return (ex. FX impact) | BM return | Relative return (ex. FX impact) |
|---|---|---|---|---|---|
| Stafford II | 8.3 | -0.2 | 8.1 | 9.0 | -0.8 |
| Stafford IV | 16.3 | -1.0 | 15.3 | 10.8 | 4.1 |
| JPM | 9.9 | -0.5 | 9.4 | 9.1 | 0.2 |
| Churchill II | 7.8 | -1.9 | 6.0 | 5.7 | 0.2 |
| Churchill IV | 10.3 | -3.4 | 7.0 | 7.4 | -0.4 |
| CBRE | 5.1 | -0.5 | 4.7 | 9.1 | -4.1 |
| Permira IV | 5.2 | 0.2 | 5.4 | 5.9 | -0.4 |
| Permira V | 7.2 | -0.4 | 6.8 | 8.1 | -1.2 |
| LCIV RIF | 11.3 | -0.5 | 10.8 | 11.6 | -0.8 |

## Hedged Currency Exposure **




## Sterling Performance vs. Foreign Currencies (Rebased to 100 at 31 March 2024)




*Source: Northern Trust and Investment Managers.*
**Since inception performance is since individual fund inception of inception of the currency hedging mandate, whichever is more recent. ** As at 31 December 2023 (latest available).*

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Since March 2018, the Fund has made commitments to seven private markets funds as outlined right. The table provides a summary of the commitments and drawdowns to 31 March 2024.



| Mandate | Infrastructure | | | Private Debt | | |
|---|---|---|---|---|---|---|
| Vehicle | Stafford Infrastructure Secondaries Fund II | Stafford Infrastructure Secondaries Fund IV | LCIV Renewable Energy Infrastructure Fund | Churchill Middle Market Senior Loan Fund IV | Permira Credit Solutions IV Senior Fund | Permira Credit Solutions V Senior Fund |
| Commitment Date | 25/04/2018 | 18/12/2020 | 30/06/2021 | 29/09/2021 | 12/2018 | 07/11/2022 |
| Fund Currency | EUR | EUR | GBP | USD | EUR | EUR |
| Gross Commitment | €28.5m | €30m | £25m | $26.5m | £36.0m | £43.0m |
| Gross Commitment (GBP estimate) | £24.4m | £25.6m | - | £21.0m | - | - |
| Capital Called During Quarter (Payments Less Returned Capital) | - | £2.2m | £0.8m | - | - | £2.0m |
| Capital Drawn To Date | £26.3m | £17.4m | £11.2m | £17.8m | £31.2m | £18.2m |
| Distributions/Returned Capital To Date (Includes Income and Other Gains) | £14.5m | £1.3m | - | £3.4m | £7.9m | £2..6 |
| NAV at Quarter End | £19.9m | £25.4m | £14.1m | £17.1m | £30.1m | £20.4m |
| Net IRR Since Inception * | 8.5% | 12.7% | 7-10% p.a. (Target) | 8.8%** | 7.1% | 14.8% |
| Net Cash Yield Since Inception* | 6.9% p.a. | 4.5% | 3-5% p.a. (Target) | - | - | - |
| Number of Holdings* | 22 funds | 16 funds | 14 investments | 145 investments | 46 investments | 16 investments |

**as at 31 March 2024 (latest available) **Refers to IRR of realised assets in the portfolio*

*Source: Investment Managers*

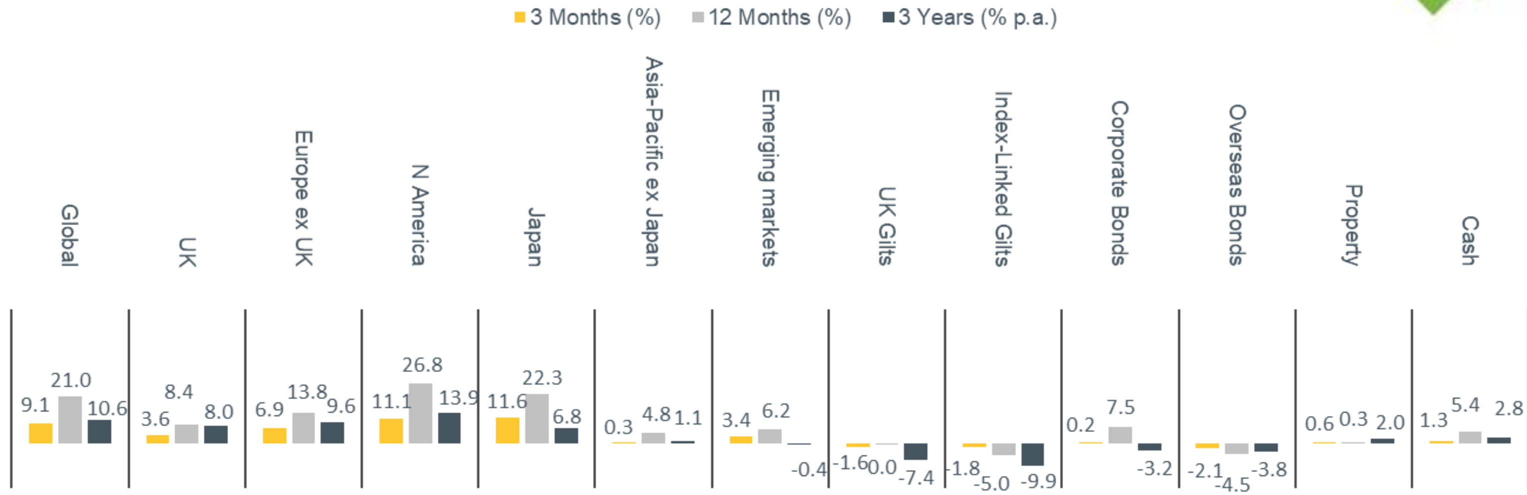
US economy grew more quickly at the end of 2023 than previously anticipated, and composite PMIs indicate global growth gained momentum in Q1. Consensus forecasts for year-on-year US GDP growth in 2024 jumped from 1.4% in January to 2.2% in March. Global growth forecasts have been revised up to 2.4%, though European and UK forecasts remain weaker.

US year-on-year headline CPI inflation rose unexpectedly, to 3.5%, in March and core inflation remained unchanged, at 3.8%, further fuelling fears that the downtrend in inflation is slowing. UK and eurozone headline CPI fell to 3.2% and 2.4%, respectively, but core inflation, which excludes energy and food prices, remains higher in the UK and eurozone, at 4.2% and 2.9%, respectively.

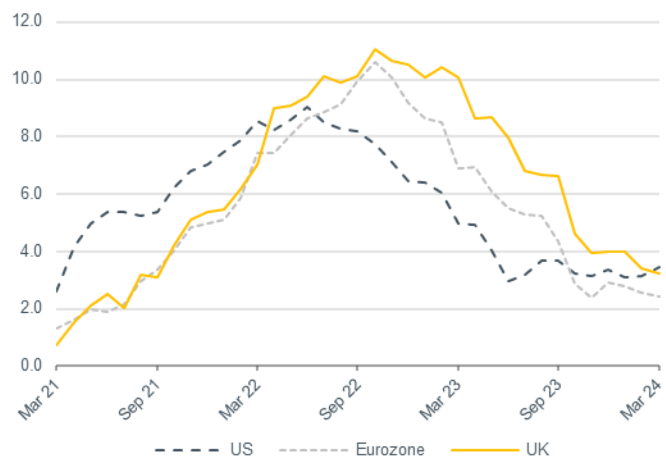
Amid stronger activity data and signs of persistence in underlying inflation, market expectations for rate cuts from the major central banks in 2024 fell from six to seven at the start of the year to two to three at the end of Q1. The US Fed, the BoE, and the ECB all left rates unchanged in Q1, but, in March, the Bank of Japan raised rates for the first time in 17 years, exiting negative rates.

Trade weighted US dollar and sterling rose 2.1% and 1.3%, respectively, as market-implied interest rates rose sharply. The equivalent yen measure fell 4.5% as markets continue to bet on a wide interest rate differential between Japan and its major peers. Gold prices rose 7.2% amid inflation concerns, geopolitical tensions, and strong demand among central banks and Chinese consumers. Oil prices rose 12.5% against a backdrop of supply cuts and conflict in the Middle East.

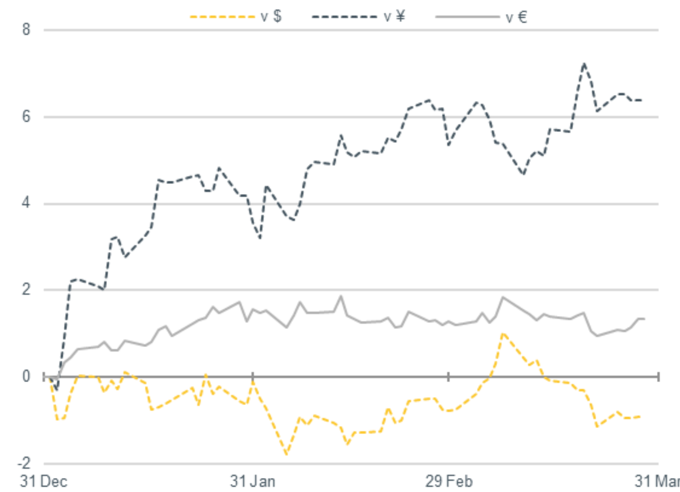
## Historic returns for world markets [1]




## Annual CPI Inflation (% year on year)




## Sterling trend chart (% change)




Source: DataStream. [1] Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

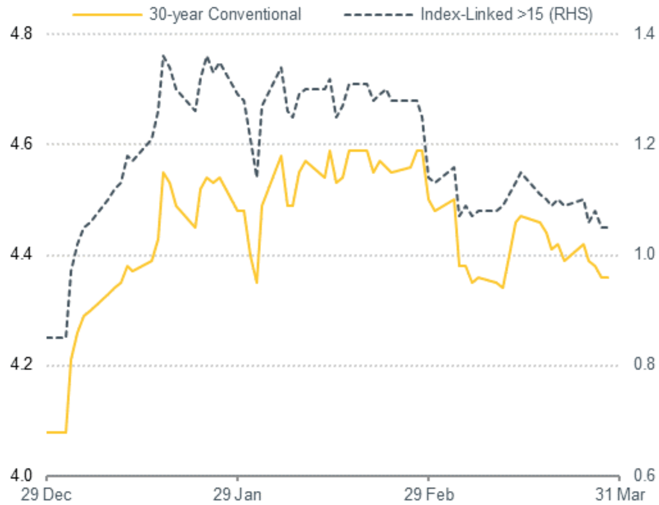
Sovereign bond yields rose sharply over the quarter amid expectations that rates might be cut less than previously anticipated. UK and US 10-year bond yields rose 0.4% pa and 0.3% pa to 3.9% pa and 4.2% pa, respectively, while equivalent German yields rose 0.3% pa, to 2.3% pa. Despite the Bank of Japan raising rates, Japanese yields rose by a modest 0.1% pa, to 0.7% pa.

Global investment-grade credit spreads fell 0.1% pa, to 1.0% pa. Speculative grade spreads fell more, with European spreads narrowing 0.4% pa to 3.5% pa and equivalent US spreads coming down 0.2% pa to 3.1% pa. Despite spread tightening, sterling investment-grade total returns were broadly flat, given the rise in underlying sovereign bond yields. Speculative-grade credit markets outperformed, with US high yield producing a total return of 1.5%.

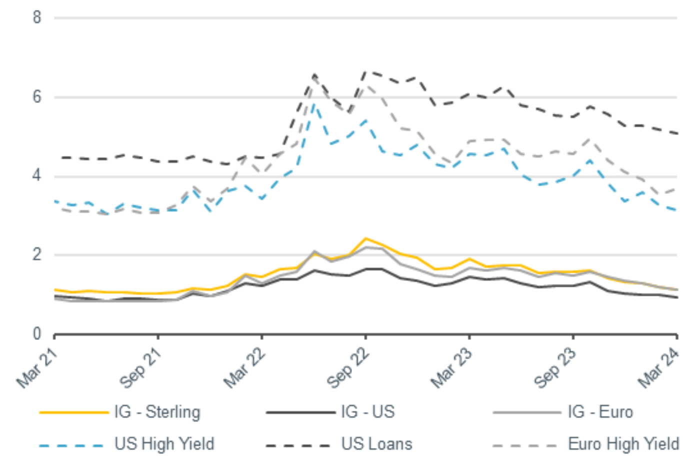
Global equities rose 9.5% in local-currency terms, as economic optimism and AI enthusiasm offset expectations of slower rate cuts. Technology stocks outperformed as massive earnings-beats by some high-profile US tech companies benefitted the sector. Also outperforming, but to a lesser extent, were cyclical sectors, such as financials, energy and industrials, in that order. Basic materials, as well as defensive sectors, such as consumer staples, utilities, telecoms and healthcare, were the worst performers.

The MSCI UK Monthly Property Total Return Index has risen 0.6% in the first quarter of 2024, bringing the 12-month total return to end-March to 0.3%. Over 12 months, capital values fell more steeply in the office sector, relative to the retail and industrial sectors.

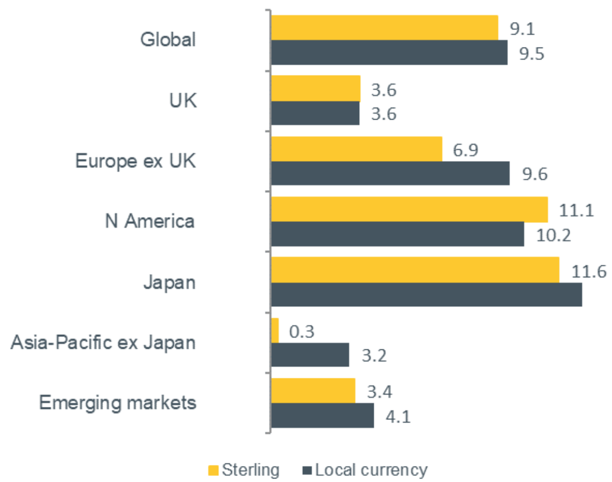
## Gilt yields chart (% p.a.)



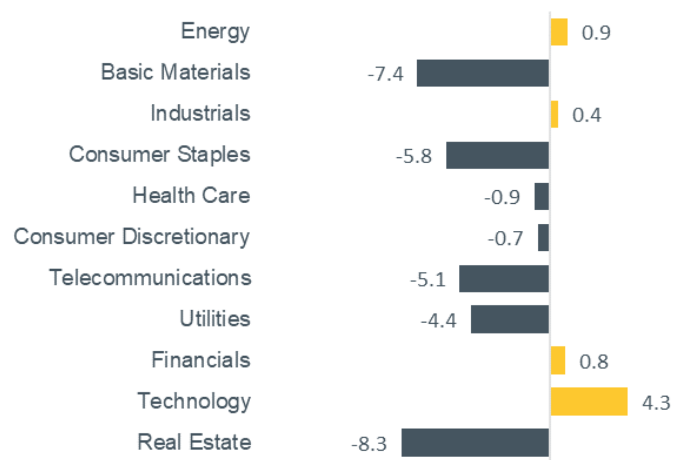

## Investment and speculative grade credit spreads (% p.a.)




## Regional equity returns [1]




## Global equity sector returns (%) [2]




Source: DataStream, Barings, ICE [1] FTSE All World Indices. Commentary compares regional equity returns in local currency. [2] Returns shown in Sterling terms and relative to FTSE All World.

## Capital Markets Outlook



| Asset Class | Market Summary |
|---|---|
| **Equities** | Economic resilience, particularly in US, easing inflation, and the prospect of interest rate cuts in 2024 mean the fundamental outlook, and the balance of risks to that outlook, has improved modestly. Global equity earnings forecasts, sitting at 9% and 13% for 2024 and 2025, respectively, may yet still prove a little optimistic but even a substantial disappointment would not be disastrous. A more favourable fundamental outlook to some extent justifies recent positive performance, but recent price moves leave cyclically adjusted global equity valuations looking stretched; now moderately above long-term medians. |
| **Investment Grade Credit** | While we expect further negative pressure on debt affordability metrics as effective interest rates continue to rise for some time, the increase in debt costs will be gradual and looks manageable, given limited near-term refinancing pressure, and the prospect of interest rate cuts and a recovery in corporate earnings in 2024 and 2025. Supported by strong yield-driven institutional demand, spread tightening leaves credit looking expensive relative to risk-free rates, with spreads now at the 25th percentile of their long-term history |
| **Emerging Market Debt** | Declining inflation, relatively subdued growth, and high real policy rates leave further room for interest rate cuts, supporting local currency duration. Additionally, easing cycles in the major developed economies have tended to be supportive of EM currencies and asset flows. However, a packed election calendar, in both EM and DM markets, in 2024, and very low EM/DM long-term yield differentials relative to history, temper our optimism here. Furthermore, EM bond yields do not look particularly high relative to our assessment of fair value. |
| **Liquid Sub-Investment Grade Debt** | Default rates have risen, and are slightly above long-term averages, but Moody's estimates that this represents the current cycle's peak and that default rates will fall below historic averages by the end of the year. However, high breakeven yields have supported demand in a shrinking market, and speculative-grade bond spreads are very low, providing little cushion against downside risks. |
| **Private Lending** | Speculative-grade loan spreads, which are in line with long-term medians, offer better value relative to similarly rated bonds, and a more modest pace of interest-rate cuts points to a potentially attractive income-based return over the medium term. |
| **Core UK Property** | Less negative property survey data and rise in real rental growth, which has turned positive for the first time in several years, point to an improvement in the outlook for UK commercial property. Valuations are no longer demanding, given the large fall in capital values over the last few years, and yields have continued to edge higher. Transaction yields, which sometimes include secondary-market discounts, have often been higher than those at index level, but some major valuation houses are suggesting that yields are stabilising across many sub-sectors. However, despite these tentative signs of improvement, the technical backdrop remains challenging. |
| **Conventional Gilts** | Weak real growth forecasts lend a degree of fundamental support to both nominal and index-linked gilts. While short-term yields look, at best, fairly valued, we still think longer-term nominal yields are attractive relative to long-term real growth and inflation forecasts. The technical backdrop remains fragile for nominal gilts, amid heavy supply, Bank of England gilts sales, and waning institutional demand. |
| **Index-Linked Gilts** | Following recent declines, we now think long-term real yields are broadly in line with our assessment of long-term fair value, which is set in line with long-term real growth forecasts minus an inflation risk premium (IRP). Furthermore, the technical picture is arguably better for index-linked gilts: they were not included in the Bank of England's asset purchase program, and so are not being sold as part of Quantitative Tightening (QT), and benefit from a captive institutional buyer base in the UK. |

*The table summarises our broad views on the outlook for markets.*

*Source: Hymans Robertson*

## Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Hymans Robertson LLP and our group companies have a wide range of clients some of which are fund managers, who may be parties in our recommendations to you in various circumstances including but not limited to manager selection, moving money to or from a manager or supporting retention of or disinvestment from a manager. We have a research team that advises on shortlisting fund managers in manager selection exercises and forming views on managers, which is separate from our client and other relationships with fund managers and therefore we do not believe there will be a conflict that would influence the advice given.



## Geometric vs. Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + Fund\ Performance)}{(1 + Benchmark\ Performance)} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance\ - Benchmark\ Performance$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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LONDON BOROUGH

**PENSIONS COMMITTEE 25 JUNE 2024**

| | |
|---|---|
| **Subject Heading:** | **PENSION FUND ACCOUNTS 2023/24** |
| **SLT Lead:** | **Kathy Freeman** |
| **Report Author and contact details:** | ***Debbie Ford***<br>***Pension Fund Manager (Finance)***<br>***01708432569***<br>***Debbie.ford@onesource.co.uk*** |
| **Policy context:** | Pension Fund accounts to be noted by the Pensions Committee |
| **Financial summary:** | This report comments on the Pension Fund Accounts for the year ended 31 March 2024 |

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

| | |
|---|---|
| Communities making Havering | [X] |
| Places making Havering | [X] |
| Opportunities making Havering | [X] |
| Connections making Havering | [X] |

## SUMMARY

This report provides Members with an extract of the Authority's Statement of Accounts for the year to 31st March 2024 showing the unaudited accounts of the Havering Pension Fund ("the Fund") as at that date.

## RECOMMENDATIONS

That the Committee consider and note the Havering Pension Fund Accounts (unaudited) as at 31st March 2024 and consider if there are any issues that need to brought to the attention of the Audit Committee.

## REPORT DETAIL

### 1 Background

1.1. The Accounts and Audit (amendment) Regulations 2022 (SI 2022/708) came into force on 22nd July 2022 and revised the statutory deadline for publishing the audited financial statements to 30 September for 2022/23 accounts and the subsequent 5 years, until the 2027/28 accounts have been completed. The deadline for the Council to produce and publish draft accounts is 31st May for the 2023/24 accounts.

1.2. The Pension Fund draft accounts have been produced and published in line with the Accounts and Audit Regulation 2015 meeting the deadline of 31 May.

1.3. The Accounts have been compiled in line with the Chartered Instituted Institute of Public Finance & Accountancy (CIPFA) *"LGPS Funds Accounts 2020/21 example accounts."*

1.4. There were no code changes in 2023/24 that affect the Pension Fund accounts.

1.5. The latest version of the Pension Fund Accounts is shown as attached in **Appendix A.**

1.6. Key movements to note from the 2023/24 accounts are:

- The Net Assets of the Fund has increased to **£969m** for 2023/24 from £896m in 2021/22, an increase of (**£73m)**.

- The increase of (**£73m)** is compiled of change in market value of investments (£54m), investment income of (£18m) and net additions of cash of (£1m). Further details are included within the Fund Account and Net Asset Statement included in this report.

1.7. The Authority's full Statement of Accounts for 2023/24 will be presented to the Audit Committee for approval in due course. As these accounts include the Pension Fund Accounts any matters which, in the opinion of the Pensions Committee, would require any amendments to the accounts will need to be reported to the Audit Committee.

1.8. The 2023/24 accounts audit is scheduled to commence in June 2024.

1.9. At the time of writing this report, the audit of the Pension Fund Accounts 2020/21, 2021/22 and 2022/23 are still subject to completion by our external auditor's Ernst and Young LLP (EY) as part of the overall audit of the Authority's Statement of Accounts.

1.10. **2020/21 Accounts audit update -** There was an update presented to the Audit Committee on the 14 May 2024, audit is substantially complete subject to quality assurance work and review. The Audit Results Report (ARR) presented noted the following:

- **Audit differences** - an adjustment of (£175m 2020/21 and £124m 2019/20) to fair value hierarchy disclosure classification from Level 1 to Level 2
- **Audit differences** - a line called 'Loans and Receivables' amount to £31m should not be included in the disclosure, £7m cash deposits should have been included as part of 'financial assets at fair value through profit and loss – level 1. A prior period adjustment disclosure note was included in the Pension Fund Statement of Accounts.
- **Unadjusted audit differences** - There are uncorrected audit differences arising from procedures performed on the valuation testing of Level 3 investments which in total would increase the value of the Pension Fund assets by £1.4 million. This is due to timing differences between the information included in the custodian report, which was used by management to compile the accounts, and the figures in the fund manager reports which reflected the most up to date information as at 31 March 2021.

1.11. **2021/22 and 2022/23 Accounts audit update** - these audits have commenced and are ongoing.

1.12. A copy of the audited Pension Fund Accounts and the auditors' opinion will be included in the 2023/24 Pension Fund Annual Report. The statutory publication date for the 2023/24 Pension Fund Annual Report is **1 December 2024**. If the audit has not been completed it will still be published as unaudited as was the case in prior years

1.13. As part of the audit process of the accounts our auditors will issue a draft ISA260 report, which summarises their findings and sets out key recommendations that will be considered by the auditors when deliberating their opinion, conclusion and issue of audit certificate.

Officers will also be given an opportunity to respond to any recommendations raised in the report once issued.

## IMPLICATIONS AND RISKS

**Financial implications and risks:**

The assets of the Pension Fund and its Managers' performance are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund.

Fees charged to the Pension Fund will consist of charges for core fees (as agreed by the Public Sector Audit Appointment (PSAA)) plus recurrent and non-recurrent fee variations where these have been submitted and approved by the PSAA. Due to the continued delays to the audit, it is not possible to provide full audit costs as these are not known until the level of work has been completed.

As an indication of costs, the 2019/20 audit actual fee charges for the Pension Fund are shown below along with estimates for the variations for outstanding audits for 2020/21, 2021/22 and 2022/23 are shown in the following table:

**Table 1 Audit Fees**

| | 2019/20 Fees | 2020/21 Fees | 2021/22 Fees | 2022/23 Fees |
|---|---|---|---|---|
| | Actual | Estimate | Estimate | Estimate |
| | £ | £ | £ | £ |
| **Core Fees** | **16,170** | **16,170** | **16,170** | **26,084** |
| **Variation** | **14,300** | [1] **57,842** | **60,000** | **60,000** |
| **Total Fees** | **30,470** | **74,012** | **76,170** | **76,170** |

[1] as set out the 2020/21 ARR report as at May 24

The 2023/24 fee scale is the first in the five-year appointing period specified by PSAA, covering 2023/24 to 2027/28 audits. Auditors will undertake their work under these new contracts.

The level at which the 2023/24 fee scale is set is largely determined by two factors which PSAA does not control: the volume of audit work required to deliver audits compliant with the requirements of the Code of Audit Practice, and audit supply market rates.

In November 2023 the PSAA published the 2023/24 audit fee scales and set this at £85,945.

Audit costs will be met from the Pension Fund and final costs will not be known until audits are finalised.

**Legal implications and risks:**

The Accounts and Audit (amendment) Regulations 2022 (SI 2022/708) came into force on 22nd July 2022 and revised the statutory deadline for publishing the audited financial statements to 30 September for 2022/23 accounts and the subsequent 5 years, until the 2027/28 accounts have been completed. The deadline for the Council to produce and publish draft accounts has reverted back to the 31st May for the 2022/23 accounts and beyond as per the Accounts and Audit Regulations 2015.

On the basis that there are no specific issues raised by the external auditor, there are no legal implications arising directly from this report.

**Human Resources implications and risks:**

There are no immediate HR implications.

**Equalities implications and risks:**

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

**BACKGROUND PAPERS**

None

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| 2022/23 £000 | FUND ACCOUNT | Notes | 2023/24 £000 |
|---|---|---|---|
| | **Dealings with members, employers and others directly involved in the fund** | | |
| 53,110 | Contributions receivables | 7 | 50,860 |
| 3,029 | Transfers in from other pension funds | 8 | 6,321 |
| **56,140** | | | **57,181** |
| (42,530) | Benefits | 9 | (44,696) |
| (3,908) | Payments to and on account of leavers | 10 | (4,461) |
| **(46,438)** | | | **(49,157)** |
| 9,702 | Net additions from dealings with members | | 8,024 |
| (5,940) | Management expenses | 11 | (6,130) |
| **3,762** | **Net additions including fund management expenses** | | **1,894** |
| | **Returns on investments** | | |
| 16,484 | Investment income | 12 | 18,327 |
| (44,577) | Profit and losses on disposal of investments and changes in the market value of investments | 13a | 53,525 |
| **(28,093)** | **Net returns on investments** | | **71,852** |
| **(24,331)** | **Net increase/(decrease) in the net assets available for benefits during the year** | | **73,746** |
| 920,083 | Opening net assets of the Fund at start of year | | 895,752 |
| **895,752** | **Closing net assets of the Fund at end of year** | | **969,498** |

| 2022/23 £000 | NET ASSET STATEMENT | Notes | 2023/24 £000 |
|---|---|---|---|
| 150 | Long term investments - London CIV shareholding | 13 | 150 |
| 879,324 | Investment Assets | 13 | 946,100 |
| (272) | Investment Liabilities | 13 | (449) |
| **879,202** | **Total net investments** | | **945,801** |
| 16,962 | Current Assets | 20 | 24,706 |
| (412) | Current Liabilities | 21 | (1,010) |
| **895,752** | **Net assets of the Fund available to fund benefits at end of the reporting period** | | **969,498** |

The financial statements summarise the transactions and the net assets of the London Borough of Havering Pension Fund ("the Fund"). They do not take account of obligations to pay pensions and other benefits which fall due after the financial year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard IAS19 basis is disclosed at Note 19 of these accounts.

# Notes to the Pension Fund Accounts

## 1 Description of the Fund

The Havering Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Havering. Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Statutory Section 151 officer.

### a) General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The LGPS Regulations 2013 (as amended),
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended),
- The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefits scheme which provides pensions and other benefits for pensionable employees of Havering Council and a range of other scheduled and admitted bodies. Teachers, are not included as they come within another national pension scheme.

The Fund is overseen by the London Borough of Havering Pensions Committee and the Local Pension Board.

### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.
- Designated bodies, which are non-community schools, whose employer has changed from the Authority to a Board of Governors. Designated body status allows continued membership in the LGPS for non-teaching staff at non-community schools. These have been accounted for within London Borough of Havering

There are 59 employer organisations with active members within the Havering Pension Fund including the Authority.

The membership profile is detailed below:

| 31-Mar-23 | | 31-Mar-24 |
|---|---|---|
| **56** | **Number of employers with active members** | **59** |
| | **Number of employees in scheme** | |
| 4,801 | London Borough of Havering | 5,205 |
| 1,818 | Scheduled bodies | 2,523 |
| 73 | Admitted bodies | 112 |
| **6,692** | **Total** | **7,840** |
| | | |
| | **Number of pensioners and dependants** | |
| 6,285 | London Borough of Havering | 6,437 |
| 454 | Scheduled bodies | 534 |
| 36 | Admitted bodies | 38 |
| **6,775** | **Total** | **7,009** |
| | | |
| | **Deferred pensioners** | |
| 5,621 | London Borough of Havering | 5,564 |
| 1,093 | Scheduled bodies | 1,197 |
| 36 | Admitted bodies | 39 |
| **6,750** | **Total** | **6,800** |
| **20,217** | **Total number of members in pension scheme** | **21,649** |

**c) Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the year ended 31 March 2024. Employer contributions are set based on triennial actuarial funding valuations. Current employer contribution rates range from 0% to 41.0% of pensionable pay.

**d) Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website – see link below.

https://www.lgpsmember.org/

## 2 Basis of Preparation

The Statement of Accounts summarise the Fund's transactions for the 2023/24 financial year and its position at year end as at 31 March 2024. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 "(the Code") which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector, and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administrating authorities the option to disclose this information in the net asset statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Fund has opted to disclose this information in Note 19.

The Administering Authority is satisfied that Havering Pension Fund is a going concern and the financial statements for 2023/24 have been prepared on a going concern basis as follows:

The investment returns for 2023/24 was +7.38% and +2.69% over the three year to 31 March 2024. Invested asset values have increased by £66.6m over the year.

There is sufficient flexibility in the investment strategy to be able to respond to short term market fluctuations. The Fund is comparatively low risk with smaller proportion of its assets held in volatile equities.

The Fund was assessed as 80% funded as at 31 March 2022 valuation, a significant improvement on the funding level of 70% at 31 March 2019 and includes a recovery period necessary to make good any potential increases in the funding deficit. It is important to remember that that the Fund does not need to be 100% funded to be a going concern, it simply needs to be able to meet benefit obligations each month as they fall due. The Fund held cash of £47.1m at the Balance Sheet date, equivalent to 5% of the fund assets. In addition, the Fund held £670m in Level 1 and Level 2 investment assets which could be realised within 3 months if required. Based upon review of its operational cash flow projections the Fund is satisfied it has sufficient cash to meet its obligations to pay pensions, for at least 12 months from the date of authorisation of these accounts, without the need to sell any investments.

## 3 Summary of Significant Accounting Policies

### Fund Account – revenue recognition

#### (a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all that arise according to pensionable pay
- Employer contributions are set at the percentage rate recommended by the Fund actuary for the period to which they relate

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Additional employers' contributions in respect of ill-health and early retirements (augmentation) are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

**(b) Transfers to and from other schemes**
Transfers in and out relate to members who have either joined or left the fund.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement. The date set for the transfer of assets and liabilities is the date it becomes recognised in the fund account.

**(c) Investment Income**

***i) Interest Income***
Interest income is recognised in the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

***ii) Dividend Income***
Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

***iii) Distribution from Pooled Funds***

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

***iv) Property - Related Income***
Property related income consists primarily of rental income and is recognised at the date of issue.

***v) Movement in the Net Market Value of Investments***
Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

**Fund Account – Expense Items**

**(d) Benefits payable**
Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities, providing the payment has been approved.

**(e) Taxation**
The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

**(f) Management Expenses**

*Administrative Expenses*
All staff costs of the pensions' administration team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

*Oversight and Governance Costs*
All costs associated with governance and oversight are separately identified and recharged to the Fund and charged as expenses to the Fund.

*Investment Management Fees*
Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11a and grossed up to increase the change in value of investments.

Fees charged by external investment managers and custodian are set out in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

Officers' time spent on investment management functions are also charged to the fund.

**(g) Lifetime Allowances**

Members are entitled to request the Fund pays their tax liabilities due in respect of annual allowance and lifetime allowance in exchange for a reduced pension.

Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

**Net Assets Statement**

**(h) Financial Assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the Fund. Any amounts due or payable in respect of trades entered but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 14a.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the code and IFRS13 (see Note 14). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).*

**(i) Foreign Currency Transactions**
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

**(j) Derivatives**
The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in the change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

**(k) Cash and Cash Equivalents**
Cash comprises cash in hand (Fund's Bank account) and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

**(l) Financial Liabilities**
A financial liability is recognised in the net assets statement on the date the Fund becomes legally responsible for that liability. The Fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised by the fund account as part of the change in value of investments.

**(m) Actuarial Present Value of Promised Retirement Benefits**
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present valve of promised benefits by way of a note to the Net Asset Statement (Note 18).

**(n) Additional Voluntary Contributions**
The fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information in Note 21.

**(o) Contingent assets and contingent liabilities**
A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

## 4 Critical Judgements in Applying Accounting Policies

**Pension Fund Liability**

The Pension Liability is calculated every three years by the appointed actuary, with annual updates provided to the admitted and scheduled bodies in the Fund, as requested, in the intervening years. The methodology used in the annual updates is in line with accepted guidelines.

This estimate is subject to significant variances based on the changes to the underlying assumptions which are agreed with the actuary and are summarised in Note 19.

Actuarial revaluations are used to set future contribution rates and underpin the Fund’s most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short term yield/return.

## 5 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from the assumptions and estimates made.

The items in the net asset statement for which there is a significant risk of material adjustment in the forthcoming year are as follows:

| Item | Uncertainties | Effect if Actual Results differ from Assumptions | Approximate monetary amount (£m) |
|---|---|---|---|
| Actuarial present value of promised retirement benefits (Note 19) | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, and expected returns on Fund's assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied | The effects on the present value of promised retirement benefits of changes in actuarial assumptions can be significant. Changes in assumptions could have the approximate following impacts on the Fund's employer liability as follows: | |
| | | 0.1% p.a. decrease in the Real Discount Rate could result in an increase of 2% | 18 |
| | | 0.1% p.a. increase in the Pension Increase Rate (CPI) could result in an increase of 2% | 17 |
| | | 0.1% p.a increase in the Salary Increase Rate could result in a 0% increase | 1 |
| | | 1 Year increase in member life expectancy could result in a 4% increase | 43 |
| Level 3 Investments (Note 15) | Level 3 investments can be determined by Fund Managers in accordance with guidelines and principles set out in the International Private Equity and Venture Capital Valuation Guidelines 2012. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | Level 3 investments total £276m, which represents 28% of the total Fund value of £945.8m. | Sensitivity Analysis shows that the £276m valuation could decrease or increase within the range of £256m and £296m |

## 6 Events after the Reporting Date

The Present Value of Promised Retirement Benefits (note 19) includes an allowance for the "McCloud ruling", i.e an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. This estimate was allowed for in the 31 March 2024 IAS26 reporting and is continued to be allowed for within the liabilities this year. There will be changes made to scheme regulations that will remove age discrimination from the LGPS and it is anticipated that these regulations will come into force in due course.

The Fund has valued its assets based on the 31 March 2024 position as reported by its investment managers. However, there is uncertainty over asset valuations, in particular for real and private market assets. The Fund believes that these valuations are the most reliable, as there are not alternative reliable estimates given the absence of trading in these asset classes.

## 7 Contributions Receivable

**By category**

| 2022/23 £000 | | 2023/24 £000 |
|---|---|---|
| | **Employees' contributions** | |
| | **Normal:** | |
| 7,012 | London Borough of Havering | 7,454 |
| 1,714 | Scheduled Bodies | 1,998 |
| 99 | Admitted Bodies | 151 |
| | **Additional contributions:** | |
| 6 | London Borough of Havering | 7 |
| **8,831** | **Total Employees' Contribution** | **9,610** |
| | **Employers' contributions** | |
| | **Normal:** | |
| 17,590 | London Borough of Havering | 21,750 |
| 5,625 | Scheduled bodies | 7,024 |
| 468 | Admitted bodies | 626 |
| | **Secondary contributions:** | |
| | **Employer contribution to deficit** | |
| 18,569 | London Borough of Havering | 11,159 |
| 750 | Scheduled bodies | 267 |
| 3 | Admitted bodies | 6 |
| | **Employer reduction to suplus** | |
| - | Scheduled bodies | (39) |
| - | Admitted bodies | (31) |
| | **Augmentation** | |
| 1,275 | London Borough of Havering | 488 |
| **44,280** | **Total Employers' Contributions** | **41,250** |
| **53,111** | **Total Contributions Receivable** | **50,860** |

The London Borough of Havering figure reflects additional contributions made by the Authority to the Pension Fund. These consist of £10.916m (22/23 £12.650m) secondary contributions and £0.065m (22/23 £5.920m) voluntary planned contributions.

Since the 2022 valuation performed by the actuary there are a number of employers with an accounting surplus. These employers have a negative contribution rate

**By authority**

| 2022/23 £000 | | 2023/24 £000 |
|---|---|---|
| 44,452 | London Borough of Havering | 40,858 |
| 8,089 | Scheduled bodies | 9,250 |
| 570 | Admitted Bodies | 752 |
| **53,111** | **Total Contributions Receivable** | **50,860** |

## 8 Transfers in from Other Pension Funds

| 2022/23 £000 | | 2023/24 £000 |
|---|---|---|
| 3,029 | **Individual transfers** | 6,321 |
| **3,029** | **Total Transfers In from Other Pension Funds** | **6,321** |

## 9 Benefits Payable

### By category

| 2022/23 £000 | | 2023/24 £000 |
|---|---|---|
| | **Pensions** | |
| 32,674 | London Borough of Havering | 36,105 |
| 1,547 | Scheduled Bodies | 1,787 |
| 202 | Admitted Bodies | 229 |
| **34,423** | **Pension Total** | **38,121** |
| | | |
| | **Commutation and Lump Sum Retirements** | |
| 6,205 | London Borough of Havering | 4,656 |
| 560 | Scheduled Bodies | 895 |
| 181 | Admitted Bodies | 10 |
| **6,946** | **Commutation and Lump Sum Retirements Total** | **5,560** |
| | | |
| | **Lump Sum Death Benefits** | |
| 985 | London Borough of Havering | 787 |
| 176 | Scheduled Bodies | 227 |
| **1,161** | **Lump Sum Death Benefits Total** | **1,014** |
| **42,530** | **Total Benefits Payable** | **44,696** |

### By authority

| 2022/23 £000 | | 2023/24 £000 |
|---|---|---|
| 39,864 | London Borough of Havering | 41,548 |
| 2,283 | Scheduled Bodies | 2,909 |
| 383 | Admitted Bodies | 239 |
| **42,530** | **Total Benefits Payable** | **44,696** |

## 10 Payments To and On Account of Leavers

| 2022/23 £000 | | 2023/24 £000 |
|---|---|---|
| 79 | Refunds to members leaving service | 42 |
| 3,829 | Individual transfers | 4,294 |
| - | Other | 125 |
| **3,908** | **Payments to and on Account of Leavers** | **4,461** |

## 11 Management Expenses

| 2022/23 £000 | | 2023/24 £000 |
|---|---|---|
| 727 | Administrative Costs | 821 |
| 4,628 | Investment Management Expenses | 4,584 |
| 595 | Oversight and Governance Costs | 718 |
| 4 | Local Pension Board | 7 |
| **5,954** | **Management Expenses** | **6,130** |

## 11a Audit Fees

| 2022/23 £000 | | 2023/24 £000 |
|---|---|---|
| (14) | Oversight and Governance - External Audit costs | 90 |
| **(14)** | **External Audit Fees** | **90** |

This analysis of the costs of managing the Fund during the period has been prepared in accordance with CIPFA guidance.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 13).

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments.

## 11b Investment Management Expenses

| 2023/24 | Management fees | Performance Related fees | Transaction cost | 2023/24 Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Bonds | 191 | 0 | 1 | 191 |
| Diversified Growth Funds | 145 | 0 | 112 | 257 |
| Infrastructure | 873 | 72 | 0 | 945 |
| Global Equity | 1,556 | 0 | 122 | 1,678 |
| **Other Investments** | | | | |
| Pooled Property | 525 | 128 | 126 | 779 |
| Private Debt | 670 | 0 | 0 | 670 |
| Derivatives - Forward Currency Contracts | 35 | 0 | 0 | 35 |
| | **3,995** | **200** | **361** | ***4,556** |
| Custody fees | | | | 28 |
| Performance Measurement fees | | | | 38 |
| Other Investment fees | | | | - |
| **Investment Management Expenses** | | | | **4,622** |

*Includes £1.954m charged for assets in the London CIV asset pool (£1.954m In 2022/23)

**Investment Management Expenses continued**

| 2022/23 | Management fees | Performance Related fees | Transaction cost | 2022/23 Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Bonds | 179 | 0 | 0 | 179 |
| Fixed Interest Unit Trust | 18 | 0 | 0 | 18 |
| Diversified Growth Funds | 286 | 0 | 210 | 496 |
| Infrastructure | 770 | 0 | 0 | 770 |
| Global Equity | 1,501 | 0 | 100 | 1,601 |
| **Other Investments** | | | | |
| Pooled Property | 667 | 121 | 0 | 788 |
| Private Debt | 657 | 0 | 0 | 657 |
| Derivatives - Forward Currency Contracts | 31 | 0 | 0 | 31 |
| | **4,109** | **121** | **310** | ***4,540** |
| Custody fees | | | | 27 |
| Performance Measurement fees | | | | 42 |
| Other Investment fees | | | | 10 |
| **Investment Management Expenses** | | | | **4,619** |

*Includes £1.954m charged for assets in the London CIV asset pool (£2.086m In 2020/21)

## 12 Investment Income

| 2022/23 £000 | | 2023/24 £000 |
|---|---|---|
| 13,682 | Pooled Investments - unit trusts and other managed funds | 14,660 |
| 600 | Bonds | 507 |
| - | Fixed income | 173 |
| 1,928 | Pooled Property Investments | 1,453 |
| 12 | Income form Derivatives (Foreign Exchange Gains/(losses)) | - |
| 262 | Interest on Cash Deposits | 1,427 |
| - | Other income | 107 |
| **16,484** | **Investment Income** | **18,327** |

* Income includes index linked interest of £0 (2022/23 £0.210m), fund is now fully divested

## 13 Analysis of Investments

| 2022/23 | | 2023/24 |
|---|---|---|
| £000 | | £000 |
| | **Investment Assets** | |
| 150 | **LCIV Shareholding** | 150 |
| **150** | | **150** |
| | **Bonds** | |
| 351 | Fixed Interest Securities* | - |
| 26,737 | Index-Linked Securities | 23,819 |
| **27,088** | | **23,819** |
| | **Pooled Investment** | |
| 60,434 | Fixed Interest Unit Trust | 113,102 |
| 66,469 | Diversified Growth Fund** | - |
| 84,509 | Infrastructure | 110,253 |
| 459,769 | Global Equity | 509,812 |
| **671,180** | | **733,167** |
| | **Other Investments** | |
| 85,821 | Pooled Property | 81,318 |
| 81,161 | Private Debt | 84,551 |
| **166,982** | | **165,869** |
| 1,576 | Derivatives - Forward Currency Contracts | 334 |
| 12,066 | Cash deposits Managers | 22,822 |
| 362 | Amounts receivable for sales | - |
| 71 | Investment income due | 89 |
| **14,074** | | **23,245** |
| **879,474** | **Total Investment Assets** | **946,249** |
| | **Investment Liabilities** | |
| (24) | Derivatives - Forward Currency Contracts | (449) |
| (248) | Amounts payable for purchases | - |
| **(272)** | **Total Investment Liabilities** | **(449)** |
| **879,202** | **Total Net Investments** | **945,801** |

* Divested during 2022/23
** Divested during 2023/24

### 13a. Reconciliation of movements in investments and derivatives

| | Market Value at 31 March 2023 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in Market Value during the year | Market Value at 31 March 2024 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Fixed Interest Securities | 351 | 736 | (1,097) | 10 | 0 |
| Index-linked Securities | 26,737 | 8,352 | (7,786) | (3,484) | 23,819 |
| Pooled Investment Vehicles | 671,330 | 29,052 | (22,998) | 55,933 | 733,317 |
| Other Investments | 166,982 | 11,350 | (8,509) | (3,954) | 165,869 |
| | **865,400** | **49,490** | **(40,390)** | **48,505** | **923,005** |
| Derivatives – forward currency contracts | 1,551 | 6,042 | (12,873) | 5,165 | (115) |
| | **866,951** | **55,532** | **(53,263)** | **53,670** | **922,890** |
| **Other Investment Balances:** | | | | | |
| Cash Deposits (fund managers) | 12,066 | | | (148) | 22,822 |
| Investment income due | 185 | | | - | 89 |
| Spot FX | | | | 3 | |
| | **879,202** | | | **53,525** | **945,801** |

| | Market Value at 31 March 2022 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in Market Value during the year | Market Value at 31 March 2023 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Fixed Interest Securities | 22,977 | 16,151 | (33,428) | (5,349) | 351 |
| Index-linked Securities | 39,097 | 30,843 | (29,914) | (13,289) | 26,737 |
| Pooled Investment Vehicles | 679,059 | 30,076 | (22,622) | (15,183) | 671,330 |
| Other Investments | 148,909 | 27,978 | (4,859) | (5,046) | 166,982 |
| | **890,042** | **105,048** | **(90,823)** | **(38,867)** | **865,400** |
| Derivatives – forward currency contracts | (2,168) | 21,804 | (12,431) | (5,654) | 1,551 |
| | **887,874** | **126,852** | **(103,254)** | **(44,521)** | **866,951** |
| **Other Investment Balances:** | | | | | |
| Cash Deposits (fund managers) | 16,985 | | | (56) | 12,066 |
| Investment income due | 361 | | | | 185 |
| | **905,220** | | | **(44,577)** | **879,202** |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Purchases and Sales of derivatives (forward current contracts) are recognised in Note 12a above for contracts settled during the period are reported on a gross basis as gross receipts and payments.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £0.361m (2022/23 £0.310m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2024 were as follows:

**13b. Investments analysed by Fund Manager**

| Value 31 March 2023 £000 | % | Manager | Mandate | Value 31 March 2024 £000 | % |
|---|---|---|---|---|---|
| **Investments managed by London CIV asset Pool:** | | | | | |
| 150 | 0.02 | London CIV | Equities Unquoted | 150 | 0.02 |
| 66,469 | 7.56 | Baillie Gifford | Pooled Diversified Growth Fund | - | - |
| 115,888 | 13.18 | Ruffer | Pooled Absolute Return Fund | 108,928 | 11.52 |
| 11,185 | 1.27 | Foresight, Blackrock, Quinbrook & Stonepeak | Pooled Infrastructure Renewables | 14,161 | 1.50 |
| 135,620 | 15.43 | Baillie Gifford | Pooled Global Alpha Growth Paris Aligned Fund | 157,289 | 16.63 |
| 43,994 | 5.00 | State Street Global Advisors | Pooled Passive Equity Progressive Paris Aligned (PEPPA) | 55,522 | 5.87 |
| 0 | 0.00 | PIMCO | Global Bonds | 47,433 | 5.02 |
| **373,306** | **42.46** | | | **383,482** | **40.54** |
| **PLUS Investments aligned with London CIV asset pool:** | | | | | |
| 164,266 | 18.68 | Legal & General Investment Management (LGIM) | Passive Global Equities/ Emerging Markets/Future World | 188,073 | 19.89 |
| **537,572** | **61.14** | **London CIV Total** | | **571,556** | **60.43** |
| **Investments managed outside of the London CIV asset Pool:** | | | | | |
| 60,434 | 6.87 | Royal London Multi Asset Credit Pooled Fund | Fixed Interest Unit Trust | 65,787 | 6.96 |
| 27,257 | 3.10 | Royal London Index Linked Bonds Fund | Investment Grade Bonds | 23,819 | 2.52 |
| 51,148 | 5.82 | UBS Property | Pooled Property | 48,866 | 5.17 |
| 34,673 | 3.94 | CBRE | Global Pooled Property | 32,451 | 3.43 |
| 19,937 | 2.27 | Stafford Capital SISF II | Overseas Pooled Infrastructure | 19,852 | 2.10 |
| 16,387 | 1.86 | Stafford Capital SISF IV | Overseas Pooled Infrastructure | 25,435 | 2.69 |
| 37,000 | 4.21 | JP Morgan | Overseas Pooled Infrastructure | 50,808 | 5.37 |
| 21,761 | 2.48 | Churchill II | Overseas Pooled Private Debt | 17,449 | 1.84 |
| 15,288 | 1.74 | Churchill IV | Overseas Pooled Private Debt | 17,123 | 1.81 |
| 30,961 | 3.52 | Permira PCS4 | Overseas Pooled Private Debt | 30,098 | 3.18 |
| 13,151 | 1.50 | Permira PCS5 | Overseas Pooled Private Debt | 20,434 | 2.16 |
| 5,905 | 0.67 | Russell Investments | Currency Management | 3,699 | 0.39 |
| 7,728 | 0.88 | Other | Other | 18,424 | 1.95 |
| **341,630** | **38.86** | | | **374,245** | **39.57** |
| **879,202** | **100.00** | **Total Fund** | | **945,801** | **100.00** |

The following investments represent more than 5% of the net assets of the Fund:

| Market Value 31 March 2023 | % of Total Fund | Security | Market Value 31 March 2024 | % of Total Fund |
|---|---|---|---|---|
| £000 | | | £000 | |
| 135,620 | 15.43 | London CIV Baillie Gifford Global Alpha Paris Aligned Fund | 157,289 | 16.63 |
| 115,888 | 13.18 | London CIV Ruffer Absolute Return Fund | 108,928 | 11.52 |
| 93,404 | 10.62 | LGIM Future World Fund | 107,757 | 11.39 |
| 66,469 | 7.56 | London CIV Diversified Growth Fund | 0 | 0.00 |
| 60,434 | 6.87 | Royal London Multi Asset Credit Pooled Fund | 65,670 | 6.94 |
| 43,994 | 5.00 | London CIV Pooled Passive Equity Progressive Paris Aligned (PEPPA) | 55,522 | 5.87 |
| 51,148 | 5.82 | UBS Property | 48,866 | 5.17 |
| 36,999 | 4.21 | JP Morgan infrastructure | 50,808 | 5.37 |
| **603,956** | **68.69** | **Total Fund** | **594,840** | **62.89** |

## 13d. Stock Lending

We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager, LGIM, who carry out stock lending as part of the Fund’s activities. Stock Lending occurs in limited number of overseas equities index funds.

The Stock Lending programme is managed and administered by the custodian of the funds (Citibank) within the risk control parameters set by LGIM. The programme has been operating for over 10 years and enjoys an indemnity from Citibank. Stocklending is only undertaken with counterparties who have satisfied the requirements in terms of market capability and minimum credit standing.

All income arising from stock lending less the custodian/administrator's costs are credited to the funds lending the stocks. LGIM does not receive any revenue from the stock lending. As at 31 March 2024, the value of quoted equities on loan was £163.4m (31 March 2023 £37.9m) These equities continue to be recognised in the fund's financial statements.

## 14 Analysis of derivatives

**Objectives and policies for holding derivatives**

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the Fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and various investment managers.

**Forward foreign currency**

The Fund currently has exposure to forward currency contracts and the purpose of this is to reduce the Fund's exposure to fluctuations in exchange rates. The Fund managers who use forward currency contracts are Royal London and Russell. A breakdown of forward contracts held by the Fund as at 31 March 2024 and prior year is shown below:

| Settlement | Currency Bought | Local Value | Currency Sold | Local Value | Asset Value (Unrealised Gain) | Liability Value (Unrealised Loss) |
|---|---|---|---|---|---|---|
| | | 000 | | 000 | £000 | £000 |
| Up to one month | GBP | 26,986 | EUR | (31,367) | 143 | (0) |
| Up to one month | GBP | 1,959 | AUD | (3,772) | 9 | 0 |
| Up to one month | GBP | 36,930 | USD | (46,795) | 0 | (107) |
| One to six months | GBP | 56,348 | EUR | (65,669) | 74 | (9) |
| One to six months | GBP | 5,742 | AUD | (11,098) | 10 | (9) |
| One to six months | GBP | 67,533 | USD | (85,637) | 91 | (322) |
| One to six months | USD | 7,144 | GBP | (5,649) | 5 | (0) |
| One to six months | EUR | 1,775 | GBP | (1,521) | 0 | (1) |
| One to six months | AUD | 384 | GBP | (198) | 0 | 0 |
| Up to one month | USD | 233 | GBP | (183) | 2 | 0 |
| Up to one month | EUR | 417 | GBP | (357) | 0 | (0) |
| **Open forward currency contracts at 31 March 2024** | | | | | **334** | **(449)** |
| **Net forward currency contracts at 31 March 2024** | | | | | | **(115)** |
| **Open forward currency contracts at 31 March 2023** | | | | | 1,575 | (24) |
| **Net forward currency contracts at 31 March 2023** | | | | | | **1,551** |

## 15 Fair Value Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, where possible using market based information. There has been no change in the valuation techniques used during the year.

Asset and Liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values.

**Level 1**
Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, comprising quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

**Level 2**
Where quoted market prices are not available or where valuation techniques are used to determine fair value based on observable data.

**Level 3**
Where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The Valuation basis for each category of investment asset is set out below:

| Description of asset | Value hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| Market quoted investments | Level 1 | Published bid market price ruling on the final day of the accounting period | Not required | Not required |
| Quoted bonds | Level 1 | Fixed interest securities are valued at a market value based on current yields | Not required | Not required |
| Pooled quoted investments | Level 2 | Published bid market price ruling on the final day of the accounting period | Not required | Not required |
| Pooled unquoted investments | Level 2 | Developed using market data | No material difference between the value of assets & liabilities and their fair value | Not required |
| Forward foreign exchange derivatives | Level 2 | Market forward exchange rates at the year-end | Exchange rate risk | Not required |
| UK Pooled instruments property funds | Level 3 | Valuations carried out by the property funds external valuers, Knight Frank LLP | Market value in accordance with the "RICS" Appraisal and Valuation standards | Valuations could be affected by significant differences in rental value and rental growth |

| Description of asset | Value hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| Overseas Pooled instruments property funds (CBRE) | Level 3 | The valuation function is performed by the Alternative Investment Fund Manager (AIFM) in accordance with the AIFMD | A Pricing Committee, composed of senior members of the AIFM, is in place, who meet quarterly and is responsible for overseeing proposed adjustments to the value of investments | Valuations could be affected by significant differences in rental value and rental growth. There may be a timing difference between the date of the last reported underlying property valuation and the date of the Funds financial statements, during which the underlying property valuation may have increased or decreased by a significant amount |
| Overseas Pooled instruments Infrastructure Funds (JP Morgan) | Level 3 | Estimated fair values are determined by the Advisor at valuation date and independently appraised and adjusted on a quarterly basis. | Three valuation techniques can be used, the market, income or cost approach. The appropropiatness of each approach depends on the type of asset or business being valued. | Risks to the valuation involve a number of local, national and international economic conditions. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuations may have increased or decreased by a significant amount |
| Overseas Pooled instruments Infrastructure Funds (Stafford Capital) | Level 3 | Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations. | Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations. | Risks to the valuation involve a number of local, national and international economic conditions. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuations may have increased or decreased by a significant amount |

| Description of asset | Value hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| Overseas Pooled instruments Private Debt (Churchill) | Level 3 | Valuations undertaken quarterly and determined by the Investment Manager. To determine the value the manager relies on guidance by various regulatory and industry organisations and authorised to use independent third party pricing services and valuation firms. | Unobservable inputs are determined by the Investment Manager and shall take into account items that it reasonably believes would impact the valuation (such as expenses and reserves). | Significant increases (decreases) in discount yields could result in lower (higher) fair value measurement. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuation may have increased or decreased by a significant amount. |
| Overseas/UK Pooled instruments Private Debt (Permira) | Level 3 | Fair Value is determined by the AIFM based on advice from Portfolio Manager and based on the International Private Equity and Venture Capital guidelines or other standards agreed by the Senior Fund Advisory Committee. | Unobservable inputs are determined by the Investment Manager. | Use of estimates and changes in assumptions may have significant impact on the valuations. Timing difference between the date of the last reported valuation and the date of the Fund's financial statements means that valuation may have increased or decreased by a significant amount. |
| Overseas/UK Pooled instruments Renewable Infrastructure | Level 3 | Fair Values are calculated in whole or in part using techniques based on assumptions using Investment Association Statement of Recommended Practice (IA SORP) | Unobservable inputs are determined by the Investment Manager. | Use of estimates and changes in assumptions may have significant impact on the valuations. Timing difference between the date of the last reported valuation and the date of the Fund's financial statements means that valuation may have increased or decreased by a significant amount. |

**Sensitivity of assets valued at level 3**

Having analysed historical data and current market trends, and consulted with independent performance measurement service, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2024.

| | Assessed valuation range (+/-) | Value at 31 March 2024 | Value on increase | Value on decrease |
|---|---|---|---|---|
| | % | £000 | £000 | £000 |
| Private Debt | 7.19 | 84,551 | 90,470 | 78,633 |
| Pooled Property | 5.65 | 81,318 | 87,010 | 75,625 |
| Infrastructure | 5.71 | 110,252 | 118,301 | 102,204 |

| | Assessed valuation range (+/-) | Value at 31 March 2023 | Value on increase | Value on decrease |
|---|---|---|---|---|
| | % | £000 | £000 | £000 |
| Pooled Property funds | 7.00 | 85,821 | 91,828 | 79,813 |
| Pooled Unit Trusts | 7.30 | 165,670 | 177,764 | 153,576 |

## 15a Fair Value Hierarchy

The following tables provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which fair value is observable.

| | Quoted Market price | Using observable inputs | With significant unobservable inputs | |
|---|---|---|---|---|
| **Values at 31 March 2024** | **Level 1 £000** | **Level 2 £000** | **Level 3 £000** | **Total £000** |
| **Financial Assets** | | | | |
| Financial assets at fair value through profit and loss | 259,541 | 410,254 | 276,121 | 945,916 |
| **Total Financial Assets** | **259,541** | **410,254** | **276,121** | **945,916** |
| **Financial Liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | 0 | (115) | 0 | (115) |
| **Total Financial Liabilities** | **0** | **(115)** | **0** | **(115)** |
| **Net Financial Assets** | **259,541** | **410,139** | **276,121** | **945,801** |

| Values at 31 March 2023 | Quoted Market price<br>Level 1<br>£000 | Using observable inputs<br>Level 2<br>£000 | With significant unobservable inputs<br>Level 3<br>£000 | Total<br>£000 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Financial assets at fair value through profit | 192,162 | 435,821 | 251,491 | 879,474 |
| **Total Financial Assets** | **192,162** | **435,821** | **251,491** | **879,474** |
| **Financial Liabilities** | | | | |
| Financial liabilities at fair value through | 0 | (272) | 0 | (272) |
| **Total Financial Liabilities** | **0** | **(272)** | **0** | **(272)** |
| **Net Financial Assets** | **192,162** | **435,550** | **251,491** | **879,202** |

The Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

### 15b Reconciliation of Fair Value Measurement within Level 3

| | Market Value 31 March 2023<br>£000 | Purchases<br>£000 | Sales<br>£000 | Unrealised gains / losses<br>£000 | Realised gains / losses<br>£000 | Market Value 31 March 2024<br>£000 |
|---|---|---|---|---|---|---|
| Infrastructure | 84,509 | 25,922 | (2,581) | 554 | 1,849 | 110,253 |
| Pooled Property | 85,821 | - | (437) | 0 | (4,066) | 81,318 |
| Private Debt | 81,161 | 11,350 | (8,072) | 93 | 19 | 84,551 |
| **Total** | **251,491** | **37,272** | **(11,090)** | **647** | **(2,198)** | **276,122** |

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account

There were no transfers between levels

## 16 Financial Instruments

### (a) Classification of financial instruments

The following table analyses the carrying amounts of financial instruments by category and net asset statement heading. No financial instruments were reclassified during the accounting period.

| 31 March 2023 | | | | 31 March 2024 | | |
|---|---|---|---|---|---|---|
| Fair value through profit and loss | Assets at amortised cost | Liabilities at amortised cost | | Fair value through profit and loss | Assets at amortised cost | Liabilities at amortised cost |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| | | | **Financial Assets** | | | |
| 150 | - | - | Long Term Investments | 150 | - | - |
| 351 | - | - | Bonds -Fixed Interest Securities | - | - | - |
| 26,737 | - | - | Bonds - Index linked securities | 23,819 | - | - |
| 1,575 | - | - | Derivative contracts | 334 | - | - |
| 671,180 | - | - | Pooled investment Vehicles | 733,167 | - | - |
| 81,161 | - | - | Private Debt | 84,551 | - | - |
| 85,821 | - | - | Property | 81,318 | - | - |
| | 12,211 | - | Cash | - | 47,099 | - |
| - | 433 | - | Other Investment Balances | - | 89 | - |
| - | 16,156 | - | Debtors | - | 99 | - |
| **866,975** | **28,800** | **0** | **Financial Assets Total** | **923,339** | **47,287** | **0** |
| | | | **Financial Liabilities** | | | |
| - | - | (248) | Other Investment Balances | - | - | - |
| (24) | - | - | Derivative contracts | (449) | - | - |
| - | - | (410) | Creditors | - | - | (1,008) |
| **(24)** | **0** | **(658)** | **Financial Liabilities Total** | **(449)** | **0** | **(1,008)** |
| **866,951** | **28,800** | **(658)** | **Grand total** | **922,890** | **47,287** | **(1,008)** |
| | **895,093** | | | | **969,169** | |

### (b) Net Gains and Losses on Financial Instruments

| 2022/23 £000 | | 2023/24 £000 |
|---|---|---|
| | **Financial assets** | |
| (44,577) | Fair value through profit and loss | **53,525** |
| **(44,577)** | **Total** | **53,525** |

The Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## 17 Nature and Extent of Risks Arising from Financial Instruments

**Risk and Risk Management**

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the authorities' pensions operations. Polices are reviewed regularly to reflect changes in activity and in market conditions.

**(a) Market Risk**

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising investment return.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the pension fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

**Other Price Risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. The Fund's investment managers mitigate this risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

**Other Price Risk – Sensitivity Analysis**

Following analysis of historical data and expected investment return movements during the financial year, in consultation with Pensions & Investments Research Consultants (PIRC), it has been determined that the following movements in market price risk are reasonably possible for 2023/24, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

| Asset Type | Value as at 31 March 2024 £000 | Potential market movements % | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Pooled Equities | 623,064 | 12.49 | 700,885 | 545,244 |
| Total Bonds | 23,819 | 5.65 | 25,164 | 22,473 |
| Pooled Overseas Unit Trusts | 194,804 | 6.99 | 208,421 | 181,187 |
| Pooled Property | 81,318 | 7.19 | 87,164 | 75,471 |
| Cash | 22,796 | 0.85 | 22,990 | 22,602 |
| **Total** | **945,800** | | **1,044,624** | **846,977** |

| Asset Type | Value as at 31 March 2023 £000 | Potential market movements % | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Pooled Equities | 520,353 | 14.40 | 595,284 | 445,422 |
| Total Bonds | 27,087 | 6.20 | 28,767 | 25,408 |
| Pooled Overseas Unit Trusts | 165,670 | 7.30 | 177,764 | 153,576 |
| Global Pooled inc.UK | 66,469 | 6.10 | 70,523 | 62,414 |
| Pooled Property | 85,821 | 7.00 | 91,828 | 79,813 |
| Cash | 13,802 | 0.50 | 13,871 | 13,733 |
| **Total** | **879,202** | | **978** | **780** |

**Interest Rate Risk**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

**Interest Rate Risk Sensitivity Analysis**

The analysis that follows assumes all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1%) change in interest rates. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

**Assets exposed to Interest Rate Risk**

| Assets exposed to interest rate risk | Asset Values as at 31 March 2023 £000 | Potential movement on 1% change in interest rates £000 | Value on increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Bond Securities | 23,819 | 238 | 24,057 | 23,581 |
| Cash and Cash Equivalents | 22,822 | 228 | 23,050 | 22,594 |
| Cash Balances | 24,276 | 243 | 24,519 | 24,034 |
| **Total Change in Asset Value** | **70,917** | **709** | **71,626** | **70,208** |

| Assets exposed to interest rate risk | Asset Values as at 31 March 2023 £000 | Potential movement on 1% change in interest rates £000 | Value on increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Bond Securities | 27,087 | 271 | 27,358 | 26,816 |
| Cash and Cash Equivalents | 13,802 | 138 | 13,940 | 13,664 |
| Cash Balances | 16,201 | 162 | 16,363 | 16,039 |
| **Total Change in Asset Value** | **57,090** | **571** | **57,661** | **56,519** |

**Currency Risk**

Currency risk represents the risk that fair value of future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling.

Following analysis of historical data in consultation with PIRC, it has been determined that a likely volatility associated with foreign exchange rate movements is 6.90% over a rolling 36 month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 5.55% strengthening and weakening of the pound against the various currencies in which the Fund holds investments would increase or decrease the net assets available to pay benefits as follows:

**Currency Risk – Sensitivity Analysis**

| Assets exposed to currency risk | Asset Values as at 31 March 2024 £000 | Potential Market movement 5.55% | Value on increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Overseas Pooled | 45,283 | 2,491 | 47,774 | 42,793 |
| Overseas Cash | 519 | 29 | 547 | 490 |
| **Total change in assets available to pay** | **45,802** | **2,519** | **48,321** | **43,283** |

| Assets exposed to currency risk | Asset Values as at 31 March 2023 £000 | Potential Market movement 6.30% | Value on increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Overseas Pooled | 145,046 | 9,138 | 154,184 | 135,908 |
| Overseas Cash | 5,366 | 338 | 5,704 | 5,028 |
| **Total change in assets available to pay** | **150,412** | **9,476** | **159,888** | **140,936** |

**(b) Credit Risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The Fund has not experieced any actual defaults in recent years and the current pracitice is to obtain a guarantee before admitting new employers so that all pension obligations are covered in the event of that employer facing financial difficulties.

Cash not needed to settle immediate financial obligations are invested by the Authority in accordance with the Treasury Investment Strategy. The Treasury Investment Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk.

**(c) Liquidity Risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it always has adequate cash resources to meet its commitments.

The Fund's cash holding under its treasury management arrangements as at 31 March 2024 was £24.163m (31 March 2023 £16.056m).The Fund has immediate access to its cash holdings that are invested by the Authority and periodic cash flow forecasts are prepared to manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund's cash management policy and in line with the Fund's investment strategy holds assets that are considered readily realised.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2024 the value of liquid assets was £670m, which represented 69% of the total Fund (31 March 2023 £644m, which represented 72% of the total fund assets).

**(d) Refinancing Risk**

The key risk is that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Authority does not have any financial instruments that have a refinancing risk as part of its investment strategies.

## 18 Funding Arrangements

### Actuarial Statement for 2023/24

This statement has been prepared in accordance with Regulation 57(1) (d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

**Description of Funding Policy**
The Funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS) dated April 2023. In summary, the key funding principles are as follows:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants;
- use a balanced investment strategy to meet the regulatory requirement for long-term cost efficiency (where efficiency in this context means to minimise cash contributions from employers in the long term);
- where appropriate, ensure stable contribution rates;
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy; and
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

**Funding Position as at the last formal funding valuation**
The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2022. This valuation revealed that the Fund's assets, which at 31 March 2022 were valued at £920 million, were sufficient to meet 80% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2022 valuation was £229 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2023 to 31 March 2026 were set in accordance with the Fund's funding policy as set out in its FSS.

**Principal Actuarial Assumptions and Method used to value the liabilities**
Full details of the methods and assumptions used are described in the 2022 valuation report and FSS.

**Method**
The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

**Assumptions**
A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2022 valuation were as follows:

| Financial assumptions | 31 March 2022 % |
|---|---|
| Discount Rate for Period | 3.5 |
| Salary increases assumption | 3.4 |
| Benefit increase assumption (CPI) | 2.7 |

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the Continuous Mortality Investigation (CMI) 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

| | Males | Females |
|---|---|---|
| Current Pensioners | 21.7 years | 24.3 years |
| Future Pensioners* | 22.6 years | 25.8 years |

** Aged 45 at the 2022 Valuation*

Copies of the 2022 valuation report and FSS are available on request from the Administrating Authority to the Fund.

**Experience over the period since 31 March 2022**

Markets were disrupted by the ongoing war in Ukraine and inflationary pressures in 2022 and 2023, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience), have resulted in higher than expected LGPS benefit increases of 10.1% in April 2023 and 6.7% in April 2024. However, asset performance has improved towards the end of 2023 and into 2024 and inflation has begun to return towards historical levels and the Bank of England's target (2% pa). There has been a significant shift in the wider economic environment since 2022, resulting in generally higher expected future investment returns and a reduction in the value placed on the Fund's liabilities. Overall, the funding position as at 31 March 2024 is stronger than at the previous formal valuation at 31 March 2022.

The next actuarial valuation will be carried out as at 31 March 2025.

## 19 Actuarial Present Value of Promised Retirements

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the pension fund liabilities to disclose what IAS26 refers to as the acturial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19.

| 31 March 2023 | Year Ended | 31 March 2024 |
|---|---|---|
| £m | | £m |
| 1,053 | Present Value of Promised Retirement Benefits | 1,074 |
| 896 | Fair Value of Scheme assets (bid Value) | 969 |
| **157** | **Net Liability** | **105** |

The promised retirement's benefits at 31 March 2024 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2022. The approximation involved in the roll forward model means that the split of benefits between the classes of members may not be reliable. However the actuary is satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, the actuary has not made any allowance for unfunded benefits.

It should be noted that the above figures are appropriate for the Administrating Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

**Assumptions**
The assumptions used are those adopted for the Administering Authority’s IAS19 report and are different as at 31 March 2024 and 31 March 2023. It is estimated that the impact of the change in financial assumptions to 31 March 2024 is to decrease the actuarial present value by £46m. It is estimated that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £7m.

**Financial assumptions**
The actuary’s recommended financial assumptions are summarised below:

| 31 March 2023 | Year Ended (% p.a) | 31 March 2024 |
|---|---|---|
| % p.a. | | % p.a. |
| 3.00 | Pension Increase Rate (CPI) | 2.80 |
| 3.70 | Salary Increase Rate | 3.50 |
| 4.75 | Discount Rate | 4.80 |

## 20 Current Assets

| 2022/23 £000 | | 2023/24 £000 |
|---:|---|---:|
| 57 | Contributions due - employers | 70 |
| 218 | Contributions due - employees | 261 |
| 145 | Pension Fund Bank Account Balances | 113 |
| 386 | Sundry Debtors | 0 |
| 16,056 | Cash deposit with LB Havering | 24,163 |
| 100 | Receivables control account | 99 |
| **16,962** | **Current Assets** | **24,706** |

## 21 Current Liabilities

| 2022/23 £000 | | 2023/24 £000 |
|---:|---|---:|
| (33) | Benefits Payable | (447) |
| (224) | Sundry Creditors | (270) |
| (155) | Holding Accounts | (293) |
| **(412)** | **Current Liabilities** | **(1,010)** |

## 22 Additional Voluntary Contributions

| Contributions Paid 2022/23 £000 | Market Value 2022/23 £000 | AVC Provider | Market Value 2023/24 £000 | Contributions Paid 2023/24 £000 |
|---:|---:|---|---:|---:|
| 30 | 749 | Prudential | 807 | 47 |
| 0 | 88 | Standard Life | 97 | 0 |

**23 Agency Services**

The Fund pays discretionary awards to the former employees of Havering. The amounts paid are not charged to the pension fund.

| 2022/23 £000 | | 2023/24 £000 |
|---|---|---|
| 1,260 | Payments on behalf of Havering Council | 1,330 |

**24 Related Party Transactions**

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Fund, or to be controlled or influenced by the Fund.

The Fund is administered by the London Borough of Havering. During the reporting period, the council incurred costs of £1.077m (2022/23 £0.946m) in relation to the administration and management of the fund and was reimbursed by the Fund for these expenses.

As the largest employer in the Fund, the Authority contributed in 2023/24 £33.396 (2022/23 £37.434m) to the Pension Fund in respect of employer's contributions. All monies owing to the Fund were paid in year.

Part of the Pension Fund internal cash holdings are invested on the money markets by the treasury management operations of London Borough of Havering, through a service level agreement. As at 31 March 2024 cash holdings totalled £24,163 (2022/23 £16,056m), earning interest over the year of £0.989m (2022/23 £0.226m).

The Fund is a minority shareholder in the London CIV Pool limited, and shares valued at £0.150m at 31 March 2024 (2022/23 £0.150m) are included as long term investments in the net asset statement. A mixed portfolio of pension fund investments is managed by the London CIV as shown in Note 13b. During 2023/24 a total of £1.578m was charged to the Fund by the London CIV in respect of investment management services (2022/23 £1.954m).

**Governance**

Responsibility for management of the Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Statutory Section 151 officer and the Managing Director of oneSource.

No members of the Pension Fund Committee are in receipt of pension benefits from the Havering Pension Fund.

Each member of the Pensions Committee and Local Pension Board are required to declare their interests at each meeting.

During the year no Member or Council officer with direct responsibility for Fund issues has undertaken any declarable material transactions with the Pension Fund.

The members of the Pensions Committee do not receive fees in relation to their specific responsibilities as members of the Pensions Committee.

The members of the Local Pension Board receive an attendance allowance for each meeting and these costs are included within Note 12.

**24a Key Management Personnel**

Paragraph 3.9.4.4 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit Regulations 2015 satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 244. This applies in equal measure to the accounts of the Havering Pension Fund.

The disclosures required by the above legislation can be found in the main accounts of Havering Council.

**25 Contingent Liabilities and Contractual Commitments**

Outstanding capital commitments (investments) at 31 March 2024 were £50.24m. (31 March 2023 £75.50m). These commitments relate to outstanding capital call payments due on unquoted limited partnership funds held in Private Debt and Infrastructure parts of the portfolio. The amounts ‘called’ by these funds are irregular in both size and timing.

Four admitted bodies in the Pension Fund hold insurance bonds or guarantees in place to guard against the possibility of being unable to meet their pension obligations. These bonds total £1.4m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Seven admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.75m.

The Fund, in conjunction with the other borough shareholders in the London CIV, has entered into an exit payment agreement with the London CIV, acting as a Guarantor. The Fund will meet any exit payments due should the London CIV cease its admission arrangements with the City of London. Should the amount become due the Fund will meet 1/32 share of the costs.

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Havering
LONDON BOROUGH

# PENSIONS COMMITTEE 25 JUNE 2024

| | |
|---|---|
| **Subject Heading:** | **2024/25-2026/27 BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2023/24** |
| **SLT Lead:** | **Kathy Freeman** |
| **Report Author and contact details:** | **Debbie Ford**<br>**Pension Fund Manager (Finance)**<br>**01708432569**<br>**Debbie.ford@onesource.co.uk** |
| **Policy context:** | **A Business plan demonstrates compliance against Myners' principles for effective decision making**. |
| **Financial summary:** | **Any associated costs met by the Pension Fund** |

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

| | |
|---|---|
| Communities making Havering | [X] |
| Places making Havering | [X] |
| Opportunities making Havering | [X] |
| Connections making Havering | [X] |

## SUMMARY

This report sets out the work undertaken by the Committee during 2023/24 and the plan of work for the forthcoming three years, attached as **Appendix A**. This will form the basis of a rolling Pension Fund Business Plan for the three years covering 2024/25 – 2026/27.

This report explains why a Business Plan is needed and what it should contain.

**RECOMMENDATIONS**

That the Committee:

1) Note the report on the work of the committee for 2023/24

2) Agree the Business Plan for the three year rolling period 2024/25 - 2026/27 Business Plan (Appendix A refers)

3) Consider any additions to the work plan for the Committee for 2024/25 and beyond (Section 3 within this report refers),

**REPORT DETAIL**

## 1. Background

1.1 Included within Myners Principle 1: Effective Decision Making suggested best practice was to create a Business Plan and a Training Plan.

1.2 The new Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 has removed the requirement to publish compliance against the six Myners principles but the Committee agreed to still publish and explain compliance against these principles. This was published with the new Investment Strategy Statement in September 2023.

1.3 To meet best practice it is appropriate to continue to prepare a report on the activity of the Committee on an annual basis and this will be adopted as the Business Plan.

1.4 In line with the Council's Constitution – Part 4 Rules of Procedure - ordinary meetings of the Council will receive reports for the previous year's Pension Committee activity from the Chair; this meeting is scheduled for the 10 July 2024 and the Business Plan (Appendix A), which includes the work of the committee for 2023/24, will be referred to the Full Council meeting for consideration.

1.5 The Business Plan, compiled in line with CIPFA guidance "Principles for Investment Decision Making & Disclosure in the LGPS" suggests that the Business Plan is submitted to the committee for consideration and should contain:

a) Major milestones & issues to be considered by the Committee
b) Financial estimates – investment and administration of the Fund
c) Appropriate provision for training
d) Key targets & methods of measurement
e) Review level of internal & external resources the committee needs to carry out its functions
f) Recommended actions to put right any deficiencies.

## 2. Training

2.1 It is important that all the members of the Committee are adequately trained and briefed to make effective decisions and those members are aware of their statutory and fiduciary responsibilities and achieve the terms of reference of this Committee, which are:

a) To consider and agree the Investment Strategy Statement for the Pension Fund and subsequently monitor and review performance
b) Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
c) To appoint and review the performance of advisers and investment managers for pension fund investments
d) To take decisions on those matters not to be the responsibility of the Executive under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning The Local Government Pension Scheme.

2.2 The Pensions Regulator (TPR) Code of Practice No.14 (April 2015) and its replacement, the new single Code of Practice came into force on 28 March 2024 includes a requirement for members of the Pension Committee (PC)/Local Pension Board (LPB) to demonstrate that they have an appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Committee/LPB

2.3 LGPS (Amendment) (Governance) Regulations 2015 states that Administering Authority must have regard to guidance issued by the Secretary of State. Guidance was issued by the then Shadow Scheme Advisory Board (SAB) in January 2015 and states that the Administering Authority should make appropriate training available to assist LPB members in undertaking their role.

2.4 A joint training strategy that incorporates Pension Committee member training with LPB members, to keep officer time and training costs to a minimum, was developed and previously agreed by the Pensions Committee on the 24 November 2015 and the LPB on the 6 January 2016. The current policy requires updating in order to incorporate guidance following the Good Governance review and the Pensions Regulator (TPR) new (single) Code of Practice. As the TPR code of practise has now been issued, officers will review compliance against the new code and commence with a Training Strategy review during 2024/25.

2.5 The Training Strategy will also set out the arrangements the Pension Fund will take in order to comply with the principles of the CIPFA's Knowledge and Skills Code of Practice.

2.6 The Fund also subscribes to the LGPS Online Learning Academy (LOLA) Launched by our Actuaries (Hymans). There were issuances of learning modules under version 1 (v1) and version 2 (v2). This is an online platform designed to support the training needs of the Pension Committee, Local Pension Board and Officers. The training is split into a number of modules covering the CIPFA Knowledge & Skills Framework and TPR's Code of Practices. Each module contains short 'videos on demand' presentations of 20 minutes or less with supplemental learning materials and quizzes.

2.7 Pension Committee members were requested to complete LOLA v1 modules to meet the Council's constitution, committee procedure rules. Officers report progress against these modules as part of its quarterly monitoring report.

2.8 Maintaining expertise, experience and knowledge is a key focus for the committee in order to meet the "qualitative test" under **Markets in Financial Instrument Directive (MiFID 11).** Firms will undertake an assessment of the **expertise, experience and knowledge** of the local authority and its pension fund committee in order to be reasonably assured that they are capable of making their own investment decisions and have an understanding of the risks involved before a firm will permit election to professional status. All requests for election have been granted for existing investment service providers but require continuous updating.

## 3. Work Plan for 2024/25 and beyond

3.1 In addition to the annual cyclical work programme as shown in **Appendix A - Annex B** there are a number of key issues that are likely to be considered by the Pensions Committee in the coming year and beyond and will be added to the meeting cycle as appropriate:

a) Continued development/monitoring of Climate Risk Policy
b) Develop and implement approach for climate related engagement
c) Task Force on Climate Related Financial Disclosures (TCFD) reporting compliance/gap analysis (subject to regulatory publications)
d) Implementation of the interim and long-term Investment
e) Consider Local investment & Levelling Up agenda (ongoing considerations at present)
f) Potential consideration of Private Equity investment (consider alongside local investment)

g) London CIV Pooling progression/Continued consideration of transfer of assets to the London CIV (particularly Multi Asset Credit, Index linked assets)
h) Equity portfolio review – including review of emerging market allocation and reflecting net-zero related commitments
i) Review of RLAM mandate & Index linked gilts objectives
j) Consideration of reallocating into Private Debt/Infrastructure close ended funds
k) Governance review of London CIV
l) Planning for SAB Good Governance guidance compliance - once guidance is issued
m) TPR New Code of Practice compliance check – develop action plan
n) New training policy to reflect Good Governance and TPR compliance
o) Risk Register –independent oversight of scoring
p) Cost transparency analysis
q) New contract – Actuary (current contract expires 15 July 2025)
r) New contract – Investment Advisor (current contract expires 31 March 2026)
s) New contract – Custodial Services (current contract expires 30 September 2026)
t) Administration issues i.e. ongoing work associated with the McCloud ruling – readiness for Pensions Dashboard
u) New Employer admissions
v) Covenant Risk Review
w) SAB developments
x) Consideration of LGPS Regulation changes and consequential policy, as applicable
y) Topical issues discussed as appropriate
z) Continued training and development (include training programme following Local Elections May 2026)

3.2 The above list is not exhaustive nor set in stone and Members are asked to consider if there are any other areas of work that they require to be included.

## IMPLICATIONS AND RISKS

**Financial implications and risks:**

The costs of providing the administrative and financial support and associated costs are reimbursed to the Administrating Authority by the Fund.

There is a considerable risk of poor decision making if Members of the Committee are not adequately trained and it is therefore essential that resources are made available to fulfil appropriate training requirements. Training costs are met from the Pension Fund directly or via the Advisor Fee.

**Legal implications and risks:**

The Councils constitution provides at Part 4.5 para 2(h) that the meeting of full Council shall:

(h) receive reports for the previous year from the Chairmen of the Overview and Scrutiny Committees, the Audit Committee and the Pensions Committee:
(i) except in the year when there are Borough Elections, at the first ordinary meeting in the Municipal Year; and
(ii) in the year when there are Borough Elections, at the last ordinary meeting before those elections;

The Report at Appendix A is therefore the proposed version to be presented to Council.

The specialist training of those Members who oversee the administration of the Council Pension Scheme is highly desirable in order to help show the proper administration of the scheme. The Council's Constitution recommends that the Membership of the Pension Committee remains static for the life of the Council for the very reason that Members need to be fully trained in investment matters. The life of the Council is considered to be the four-year term.

Otherwise there are no apparent legal implications in taking the recommended decisions.

**Human Resources implications and risks:**

None arising directly.

**Equalities implications and risks:**

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EqHIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

## BACKGROUND PAPERS

None

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Havering
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# HAVERING PENSION FUND



# 2024/27 BUSINESS PLAN/REPORT ON THE WORK OF THE PENSIONS COMMITTEE DURING 2023/24

## INTRODUCTION

This is the Business Plan for the London Borough of Havering Pension Fund (the ‘Fund’). Havering Council is an Administering Authority under Local Government Pension Scheme (LGPS) Regulations and as such has delegated authority for this to the Pensions Committee.

The Business Plan sets out the work undertaken by the Committee during 2023/24 and the plan of work for the forthcoming three years. The Business Plan is reviewed and updated annually.

The Business Plan, in line with CIPFA guidance “Principles for Investment Decision Making & Disclosure in the LGPS” outlines:

- Key Targets and Methods of Measurement
- Review level of internal & external resources
- Financial Estimates
- Major milestones and issues considered and to be considered
- Appropriate provision for Training
- Any recommendations actions to put right any deficiencies.

The Fund provides benefits to Council employees (except teachers). The performance of the Fund impacts on the cost of Council services through the cost of employer contributions. It is therefore beneficial to issue a Business Plan/Annual report to all Council Members covering the work of the Pensions Committee.

## KEY TARGETS & METHODS OF MEASUREMENT

The Fund invests employee and employer contributions into a Fund in order to pay pension benefits to scheme members. The Fund is financed by contributions from employees, employers and from profit, interest and dividends from investments.

The Pension Fund consists of 59 employers with active members, of which the London Borough of Havering is the largest. The other employers in the Fund are made of up of 44 Scheduled bodies (Academies and Further Education bodies) and 14 Admitted bodies (13 outsourced contracts and one resolution body).

**Pension Fund – Funding**

The Fund’s Actuary (Hymans Robertson) carried out a triennial valuation during 2022/23 based on data as at 31 March 2022. The main purpose of the valuation is to calculate the funding position within the Fund and set employer contribution rates for the following three years with the results of the 2022 valuation effecting employer contribution rates from 1 April 2023 until 31 March 2026.

The valuation is a planning exercise for the Fund, to assess the monies needed to meet the benefits owed to its members as they fall due. As part of the valuation process, the Fund reviews its funding and investment strategies to ensure that an appropriate contribution plan is in place.

The Fund also monitors the funding position at the midway point between triennial valuations, which is the 30 September 2023. The purpose of the funding update was to assess whether the funding plan is on track and take any actions where necessary. No actions are required to change the current funding plan. The updated funding position provides an illustrative funding position and not designed to meet regulatory requirements for. A comparison of funding levels can be seen below:

**Table 1 - Comparison of funding levels:**



| **Ongoing funding basis** | **31 March 2019** | **31 March 2022** | **30 September 2023** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Assets | 733 | 920 | 891 |
| Liabilities | 1,054 | 1,149 | 842 |
| **Surplus/(deficit)** | **(321)** | **(229)** | **49** |
| **Funding level** | **70.0%** | **80.0%** | **106%** |

Increased funding level has been driven by a fall in the liabilities. The fall in liabilities is a consequence of higher than expected real discount rate used to value the current cost of future pension obligations (accrued liabilities).

**Investment Strategy Development & Performance Monitoring:**

The Investment Strategy Statement (ISS) is subject to review at least every three years and it is timely to undertake a review as part of the triennial valuation process and future investment return expectations are set out within the Funding Strategy Statement (FSS).

During the valuation process and discussion of the valuation results it was acknowledged that there was a need to shift the investment strategy towards investments that will provide increased income for the Fund. This was reflected in an Investment Strategy Considerations paper that was presented and agreed at the Pensions Committee meeting on the 21 March 2023 and subsequently incorporated within the ISS agreed at the 12 September 2023 meeting.

Agreement at the 21 March 2023 Pensions committee meeting was to proceed with a two-step approach, which consisted of:

- An initial 'Interim' investment strategy – with an allocation to investment-grade credit assets of 5% and an increase in allocation to infrastructure assets from 10% to 12.5%,
- A 'Long Term' investment strategy – with a migration away from investment grade credit assets and move towards the more income orientated mandates of Multi Asset Credit (MAC) and private debt over time.

The ISS set outs the target asset allocations. The following table shows the actual asset allocation position as at 31 March 2024 compared against the long- term target and includes individual Fund Manager benchmarks:

**Table 2 – Asset Allocations**



| Asset Class | | Target Allocation | Actual Allocation 31 March 2024 | Relative | Benchmark and Target |
|---|---|---|---|---|---|
| | | % | % | % | |
| **GROWTH** | | **52.5** | **52.6** | **0.1** | |
| Global Equity- Legal & General Investment Management (LGIM) - Passive | LCIV aligned | 5.0 | 4.3 | -0.7 | FTSE All World Equity Index |
| Emerging Market Equity - LGIM Emerging Markets - Passive | LCIV aligned | 5.0 | 4.0 | -1.0 | FTSE World Emerging Markets |
| Multi- Factor Equity - LGIM Future World Fund | LCIV aligned | 10.0 | 11.2 | 1.2 | FTSE AW ex CW Climate Balanced Factor Index |
| Passive Equity Progressive Paris Aligned Fund (PEPPA) - State Street | LCIV | 5.0 | 5.7 | 0.7 | S&P Developed Ex-Korea Large Mid Cap Net Zero 20250 Paris Aligned ESG Index |
| Global Alpha Paris Aligned Fund - Baillie Gifford | LCIV | 15.0 | 16.2 | 1.2 | MSCI ACWI by 2- 3 % p.a. over a rolling 5 five year period Plus have a weighted average greenhouse gas intensity that is lower than MSCI ACWI EU Paris Aligned Requirement index |

| Asset Class | | Target Allocation | Actual Allocation 31 March 2024 | Relative | Benchmark and Target |
|---|---|---|---|---|---|
| | | % | % | % | |
| Absolute Return - Ruffer | LCIV | 12.5 | 11.2 | -1.3 | Preserve and grow capital (LIBOR +4% p.a.) |
| **INCOME** | | **42.5** | **40.2** | **-2.3** | |
| UK Property - UBS | Non LCIV | 6.0 | 5.0 | -1.0 | Match MSCI All Balanced Funds Weighted Average Index |
| Global Property - CBRE | Non LCIV | 4.0 | 3.3 | -0.7 | CPI +5%% p.a. (net of fees) |
| Global Infrastructure - Stafford II & IV | Non LCIV | 3.5 | 4.7 | 1.2 | CPI +5%% p.a. (net of fees) |
| Infrastructure - JP Morgan | Nov LCIV | 5.5 | 5.2 | -0.3 | CPI +5%% p.a. (net of fees) |
| Renewable Energy Infrastructure | LCIV | 3.5 | 1.5 | -2.0 | CPI +5%% p.a. (net of fees) |
| Multi Asset Credit - Royal London | Non LCIV | 7.5 | 6.8 | -0.7 | • 50% ICE BAML, BB-B Index<br>• 50% Credit Suisse US Leveraged Loan Index GBP Hedged |
| Investment Grade Credit Global Bond Fund | LCIV | 5.0 | 4.9 | -0.1 | Barclays Aggregate – Credit Index Hedged (GBP ) Index |
| Private Debt - Churchill II & IV | Non LCIV | 3.0 | 3.6 | 0.6 | Outperform cash + 4% p.a |
| Private Debt Permira - PCS4 & PCS5 | Non LCIV | 4.5 | 5.2 | 0.7 | Outperform cash + 4% p.a |
| **PROTECTION** | | **5.0** | **7.2** | **2.2** | |
| Index Linked Bonds - Royal London | Non LCIV | 5.0 | 2.4 | -2.6 | 40% FTSE Index Linked over 5 Year index. |
| Currency Hedging | Russell | 0.0 | 0.4 | 0.4 | Hedge100% of EUR,USD and AUD currency (non-equity) |
| Cash | n/a | 0.0 | 4.4 | 4.4 | n/a |
| **TOTAL** | | **100.0** | **100.0** | **0.0** | |

**Set out below is the implementation/progression of the agreed investment strategy during 2023/24:**

- 25 July 2023 – The Pensions Committee agreed the additional 2.5% be divided between JP Morgan (1.5%) and LCIV Renewable Infrastructure Fund (1%). No additional monetary amounts will be required to be transferred to the LCIV Renewable Infrastructure Fund at this time as it expected that the current committed capital will be sufficient to achieve the target.

- 12 September 2023 –The Pensions Committee agreed to proceed with the implementation of a 5% allocation to investment grade credit assets via the LCIV Global Bond Fund.

- 1 October 2023 – An additional £13m investment was paid to the JP Morgan Renewable Infrastructure Fund to reflect the 1.5% increase to the asset allocation target, funded from a divestment in the LCIV Diversified Growth Fund.

- 8 November 2023 - £45m invested in the LCIV Global Bond Fund to reflect the 5% allocation to investment grade credit assets, funded from Divestment in the LCIV Diversified Growth Fund.

- 8 November 2023 – Total divestment in the LCIV Diversified Growth Fund completed, residual cash of £5.6m retained to fund future capital calls and FX settlements.



Following on from the agreement of the ISS in September 2023, the ISS will be presented to the Committee for ongoing implementation updates during 2024 and beyond.

Overweight allocations to cash or asset allocations will be considered for reinvestment or settlement of capital calls.

Short-term performance of asset class and managers will result in a deviation from benchmarks from time to time.

Overweight positions in Global Infrastructure and private debt are likely to remain temporarily above the proposed target allocation whilst we await the return of capital to correct this.

Contributing to the underweight position in Renewable Infrastructure relates to the Funds commitment not fully called.

In line with the ISS, when the Fund allocation deviates by 5 percentage points or more from the strategic allocation, the assets will be rebalanced back to within 2.5 percentage points of the strategic asset allocation.

As at 31 March 2024 the total value of assets with the London CIV is £383m which represents 41% of assets under direct management (2022/23 42%). The London CIV has a business arrangement with LGIM to deliver the passive global mandate; this can be classified as being held within the London CIV for pooling purposes so the allocation increases to £572m. Overall allocation to LCIV is 60% (2022/23 61%). Slight reduction reflects some asset allocation rebalancing.

The Fund will continue to have ongoing discussions with the London CIV to progress the transition of assets onto the London CIV platform in accordance with the Department of Levelling Up, Housing and Communities (DLUHC) timelines.

The Fund has continued to fund capital calls for the Private Debt and Infrastructure mandates during the year to 31 March 2024. Amounts paid and waiting to be called are as follows:

**Table 3 – Capital Calls paid and outstanding**

| **Investment Manager** | **Mandate** | **Amount Paid £000** | **Commitments outstanding* £000** |
|---|---|---|---|
| Stafford II | Infrastructure | 0,608 | 1,781 |
| Stafford IV | Infrastructure | 7,557 | 2,430 |
| LCIV Renewables | Infrastructure | 3,406 | 13,076 |
| Churchill II | Private Debt | 0,509 | 1,616 |
| Churchill IV | Private Debt | 2,058 | 3,675 |
| Permira PCS4 | Private Debt | nil | 4,751 |
| Permira PCS5 | Private Debt | 5,805 | 22,914 |
| JP Morgan | Infrastructure | 13,000 | nil |
| **Total** | | **32,943** | **50,243** |

*Includes recallable income

**Investment Strategy - Climate Considerations:**

The Committee recognises the long-term financial risks and opportunities presented by climate change and during 2021/22 had already taken steps to address climate risk in a number of ways, mainly moving some of its equity investments to low carbon aligned portfolios and commenced investing in renewable energy infrastructure. The Committee will continue to include climate considerations as part of investment decision making.

The Committee's Business Plan for 2022/23, agreed at its Pensions Committee meeting on the 15 March 2022, included the development of a broader climate risk management action plan. The progress made in developing this plan during 2022/23 and 2023/24 is outlined as follows:

a. 26 July 2022 Pensions Committee meeting - the Committee received a presentation setting out the possible next steps in developing the Fund's plans for addressing climate risk within its portfolio. This plan will be used to establish a baseline position enabling the Fund to frame objectives and targets for change.

b. 20 September 2022 Pension Committee meeting - the Committee was presented with a baseline assessment of several carbon metrics, which identified gaps in data and set out those asset types where data is harder to collect and measure. Assessing the Fund's current position against a series of standard metrics will address ongoing reporting requirements.

c. 13 December 2022 Pensions Committee considered the indicative plans/actions and timescales in developing the Fund's plans for embedding climate risk management into the Fund.

d. 6 March 2023 - An education session on climate metrics was delivered to the Committee, in preparation for the discussions on setting objectives and goals for inclusion in the climate risk policy.

e. 21 March 2023 Pensions Committee discussed and agreed the draft outline of the Climate Risk Policy content and agreed to fully develop the policy. The Policy will set out the Committee's approach to addressing climate related risks, its goals and any associated actions for delivery. The Committee will then monitor exposure to climate related risks within its portfolios on an annual basis

f. 25 July 2023 Pensions Committee agreed the Climate Policy and Action Plan, which includes the objectives set, targets to be assessed and actions that the Committee will take.

g. 27 March 2024 Climate workshop held to discuss the climate journey so far and next steps on how to measure the progress against an ambition to reduce financial emissions to net zero by 2050.

## Fund Performance

The performance of the Fund is measured against a tactical and a strategic benchmark.

**Strategic Benchmark** - A strategic benchmark has been adopted for the overall Fund of Index Linked Gilts + 1.8% per annum. This is the expected return in excess of the fund's liabilities over the longer term. The strategic benchmark measures the extent to which the fund is meeting its longer term objective of reducing the funds deficit.

**Tactical Benchmark** - Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.

The Fund uses the performance measurement services from Northern Trust, to provide comparative statistics on the performance of the Fund for its quarterly monitoring.

The overall net performance of the Fund as at 31 March 2024 against both benchmarks is shown below:



**Table 4 – Fund Performance**

| | 1 year to 31.03.24 % | 3 Years to 31.03.24 % | 5 years to 31.03.24 % |
|---|---|---|---|
| Fund Return | 7.38 | 2.69 | 5.89 |
| **Tactical Benchmark** | **11.69** | **6.74** | **7.15** |
| Performance | (4.31) | (4.05) | (1.25) |
| | | | |
| Fund Return | 7.38 | 2.69 | 5.89 |
| **Strategic Benchmark** | **(3.32)** | **(8.10)** | **(3.42)** |
| Performance | 10.71 | 10.79 | 9.32 |

*Source: Northern Trust*
*Totals may not sum due to geometric basis of calculation and rounding*

**Comments on Fund performance from the Fund's Investment Advisors:**

*The overriding investment objective for the Fund is to deliver consistent year-on-year returns to support an affordable and stable level of contributions for the longer term.*

*The current funding approach implies a target investment return of 3.5% p.a. (as stated in the latest actuarial valuation date as at 31 March 2022). This target investment return is a slight increase from the 3.3% p.a. stated in the previous actuarial valuation (as at 31 March 2019).*

*Over the 12-month period to 31 March 2024, the Fund delivered a positive return of 7.4% which was ahead of the strategic benchmark, albeit behind the Fund's tactical benchmark. Over periods of 3 years and 5 years to 31 March 2024, the Fund experienced positive asset growth, with investment returns of 2.7% p.a. and 5.9% p.a. respectively. These returns remain ahead of the Fund's strategic benchmark with the Fund therefore demonstrating long-term performance which remain sufficient to support affordable and stable levels of contributions.*

*The positive investment performance (in absolute terms) over the 12-month period was primarily driven by the Fund's equity allocation, particularly the Fund's active equity allocation. Improved economic activity, declining inflation and AI enthusiasm positively impacted these allocations, leading them to perform strongly. The primary contributor to the Fund's underperformance relative to the tactical benchmark over the 12-month period was its 'absolute return' multi-asset allocation. The allocation is defensively positioned, with a large exposure to government bonds, and over a period of strong equity and credit performance and rising government bond yields, this led the allocation to underperform.*

*Implementation of previously agreed changes in the investment strategy continued over the year. To improve the efficiency of the strategy and capture investment opportunities, the Fund's allocation to the LCIV Diversified Growth Fund was redeemed in full and, as an interim step, 2.5% of the proceeds were invested in infrastructure and the remaining 5.0% invested in a new investment grade credit allocation, managed by the LCIV. As a further evolution of strategy, Committee has agreed that this 5.0% credit allocation be transferred to the multi-asset credit and private debt allocations over the longer-term.*

*Finally, during the year, the Committee took further steps to develop the Fund's Climate Risk Policy and Action Plan. This included setting a target Net Zero date of 2050, setting targets for specific climate metrics and associated actions to take over time to achieve these and framing how the Fund wishes to approach its journey towards Net Zero. As part of this work, the Committee completed a baseline assessment of climate metrics for the Fund's existing investments, received training on Task Force on Climate-related Financial Disclosures, and completed a Climate Workshop to discuss and decide actions to be taken over 2024 and beyond.*

Due to a change in guidance, the Committee reviewed the reporting arrangements back in June 2017 and agreed that only one fund manager will attend each Committee meeting, unless performance concerns override this. Managers in the London CIV sub funds are now monitored by them and the London CIV produce quarterly monitoring reports, which are distributed to the Committee.

Cyclical coverage of manager monitoring is set out in **Annex B.**

## INTERNAL & EXTERNAL RESOURCES

Investment strategy and performance monitoring of the Fund is a matter for the Committee which obtains and considers advice from the Authority and oneSource officers, and as necessary from the Fund's appointed professional adviser, actuary and performance measurers who attend meetings as and when required.

The structure of the Committee, which reflects the political balance of the Council, and who were responsible for decision making during the year to 31 March 2024, follows:

**Labour Group**
Cllr Mandy Anderson (Chair)

**Conservative Group**:
Cllr Robert Benham (until March 2023 – position vacant until July 2023)
Cllr Dilip Patel
Cllr Viddy Persaud
Cllr Joshua chapman (from July 2023 – replaced Cllr Benham)

**Havering Residents' Group**
Cllr Philip Ruck (Vice-Chair) – (until December 2023)
Cllr Julie Wilkes - (until March 23 – position vacant until September 2023))
Cllr Jacqueline Williams (from September 2023 – replaced Cllr Wilkes)
Cllr James Glass

**Other**
Union Members (Non-voting) x 2 - Derek Scott (Unison) and Vacant (GMB)
Admitted/Scheduled Body Representative (voting) (currently vacant)

Day to day management of the Fund is delegated to the authority's statutory section 151 Officer/Strategic Director of Resources and the Director of Exchequer & Transactional Services, delivered via oneSource (shared service arrangement between London Borough of Havering and Newham).

The managerial arrangement for the Pensions Finance Team under oneSource ceased on the 1 December 2023 and service management has been returned to Havering. Managerial arrangements for Pensions Administration still remain part of the oneSource arrangement.

The Pensions Committee is also supported by Committee Services.

Administrative costs are reimbursed to the Administrating Authority by the Fund.

From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council (LCC) who has engaged the Local Pension Partnership Administration (LPPA) to undertake their pension's administration.

Estimated costs for the forthcoming three years for Administration, Investment Management expenses and Governance & Oversight follow in this report.

**Pensions Administration -** The LPPA is responsible for all aspects of the Fund administration including calculating benefits, processing joiners and leavers, record amendments, end of year returns, monitoring and administration of the Authority's Additional Voluntary Contributions (AVC) scheme. LPPA engagement team is responsible for communications and training for Scheme employers and pension scheme members.

At a Pensions Committee meeting held on the 21 March 2023, members reviewed and agreed the 2023/24 budget for the LPPA Pensions Administration contract. The 2024/25 budget will be presented to the Pensions committee at the 25 June 2024 meeting.

The oneSource Pensions Administration section consists of 3 full time equivalent posts, which includes a post for the Projects and Contracts Manager who monitors the LPPA pension's administration contract and ad hoc projects.

The financial information can be seen in Financial Estimates section.

**Accountancy and Investment support -** The Pensions Finance team consists of 2.4 full time equivalent posts (3 officers). This is currently being reviewed following a retirement and an officer's reduction in hours. They ensure that members of the committee receive advice on investment strategy and monitoring of the fund managers. The team also maintains compliance with the Pension Fund statutory obligations, as well as accounting for the activities of the Fund.

As part of the succession planning, graduates on a six monthly rotation are being placed within various finance teams. During 2023/24 the Pensions Finance team continued with a graduate placement until this ceased in June 2023 and is due two further placements commencing Aug 2024 until July 2025.

## FINANCIAL ESTIMATES

The financial accounts of the Havering Pension Fund for 2022/23 is included in the formal Annual Report of the Fund itself and not included here. The Annual Report is prepared later in the year when the pension fund accounts have been finalised.

In line with the Chartered Institute of Public Finance & Accountancy (CIPFA) LGPS Management Costs guidance, Management costs are shown split between three cost categories as follows:

### 1. Administrative Expenses

Includes all staff costs associated with Pensions Administration, including Payroll.

| | **2022/23 Actual £000** | **2023/24 Estimate £000** | **2023/24 Actual £000** | **2024/25 Estimate £000** | **2025/26 Estimate £000** | **2026/27 Estimate £000** |
|---|---|---|---|---|---|---|
| Administration & Processing | 728 | 735 | 806 | 908 | 908 | 908 |
| Other Fees (Levies) | 8 | 10 | 15 | 16 | 16 | 16 |
| Other Costs (Interest) | 70 | 30 | 125 | 75 | 75 | 75 |
| Income | (79) | 0 | 0 | 0 | 0 | 0 |
| **TOTAL** | **727** | **775** | **946** | **999** | **999** | **999** |

Please note the following regarding the above figures:

- Administration & processing costs include the Pension Administration Contract LPPA, Project & Contract manager, payroll & legal charges and ad hoc project costs. Increase in costs relates to unexpected Fusion Licensing costs (£68k)
- Increase in interest payments reflects the volume of late processing of pension payments and an increase in interest rates
- 2022/23 Income relates to a one-off exercise to clear down income held in the balance sheet in relation to pension recoveries. Future income will offset payments to pension benefits.
- Assumed inflation at 5% where applicable or average over three years - No further allowance for inflation after 2024/25

## 2. Investment Management expenses

These costs will include any expenses incurred in relation to the management of Fund assets.

Fees are calculated based on market values under management and therefore increase or reduce as the value of investments change.

| | 2022/23 Actual £000 | 2023/24 Estimate £000 | 2023/24 Actual £000 | 2024/25 Estimate £000 | 2025/26 Estimate £000 | 2026/27 Estimate £000 |
|---|---|---|---|---|---|---|
| Fund Manager Fees | 4,109 | 4,000 | 3,995 | 4,000 | 4,000 | 4,000 |
| Performance Related Fees | 121 | 120 | 200 | 160 | 160 | 160 |
| Transaction costs | 310 | 300 | 361 | 335 | 335 | 335 |
| Custodian Fees | 42 | 40 | 28 | 35 | 35 | 35 |
| Performance Measurement services | 36 | 35 | 38 | 45 | 45 | 45 |
| Other Investment Fees | 10 | 15 | 0 | 0 | 0 | 0 |
| **TOTAL** | **4,628** | **4,520** | **4,622** | **4,575** | **4,575** | **4,575** |

Please note the following regarding the above figures:

- Fund Manager/Performance Fees & Transaction costs are charged according to the fund value; therefore, an average figure from the last three years has been applied for estimates 2024/25 onwards

### 3. Governance and Oversight

This category captures all costs that fall outside the above two categories and include legal, advisory, actuarial and training costs. Staff costs associated with the financial reporting and support services to the Committee is included here.

| | 2022/23 Actual £000 | 2023/24 Estimate £000 | 2023/24 Actual £000 | 2024/25 Estimate £000 | 2025/26 Estimate £000 | 2026/27 Estimate £000 |
|---|---|---|---|---|---|---|
| Financial Services | 210 | 220 | 229 | 240 | 240 | 240 |
| Actuarial Fees | 130 | 25 | 125 | 60 | 60 | 60 |
| Audit Fees | (14) | 60 | 90 | 90 | 90 | 90 |
| Member Training (inc. LPB) | 3 | 10 | 2 | 10 | 10 | 10 |
| Advisor Fees | 86 | 75 | 80 | 80 | 80 | 80 |
| London CIV | 118 | 120 | 101 | 100 | 100 | 100 |
| Local Pension Board | 4 | 5 | 7 | 10 | 10 | 10 |
| Pensions Committee | 33 | 35 | 38 | 40 | 40 | 40 |
| Other Fees | 1 | 5 | 15 | 16 | 16 | 16 |
| **TOTAL** | **585** | **555** | **687** | **646** | **646** | **646** |

Please note the following regarding the above figures:

- Actuarial Fees shown are shown gross – £65k was recharged to other employers in the fund. Estimated costs excluded unforeseen IDRP's/policy updates & TPR compliance checker tool totalling £40k.
- LCIV reflects lower fee Development Fund charges
- 2022/23 credit on audit fees relates to a prior year accrual not offset by invoice due in following year. Incompletion of prior year audits causing delays for accurately predicating audit fees. Estimates for audit fees are based on 23/24 agreed fees and uplifted for 5% inflation. Audit fees subject to approval by Public Sector Audit Appointments (PSAA).
- Assumed inflation at 5% where applicable or average over 3 years - No further allowance for inflation after 2024/25

| | 2022/23 Actual £000 | 2023/24 Estimate £000 | 2023/24 Actual £000 | 2024/25 Estimate £000 | 2025/26 Estimate £000 | 2026/27 Estimate £000 |
|---|---|---|---|---|---|---|
| **OVERALL MANAGEMENT TOTAL** | **5,940** | **5,840** | **6,255** | **6,220** | **6,220** | **6,220** |

## MAJOR MILESTONES & ISSUES CONSIDERED/TO BE CONSIDERED

**Pension Committee meetings 2023/24**
The Committee met a number of times during 2023/24 and **Annex A** sets out the coverage of matters considered and members in attendance.

Timetables are indicative and some reports may be rescheduled to an alternative date to avoid overloading content at meetings.

Annex A has been compared against the indicative work plan set for 2023/24 to demonstrate what was achieved and is set out below:

| Cyclical Planned Work | Achieved | Comments |
|---|---|---|
| **25 July 2023** | | |
| Overall Monitoring Report on Pension Fund to end of Mar 22 (LCIV - pooling manager in attendance) | Yes | |
| Business Plan/Report on the work of the Pensions Committee 2022/23 | Yes | |
| Pension fund Accounts 2022/23 | Yes | |
| Investment Strategy Statement Update | Yes | Presented at 12 September 2023 meeting |
| Climate Risk Policy | Yes | |
| **Non-Cyclical Planned Work** | **Achieved** | **Comments** |
| Implementation of interim and long-term strategy | Yes | Included in the work plan but with no specified date |
| Agreed Admission to the fund:<br>Urbaser Limited – Recycling, Waste Collection & Cleansing contract | Yes | Not possible to predict when new employers will join so won't be scheduled as part of the business plan |
| **12 September 2023** | | |
| Overall Monitoring Report on Pension Fund to end of Jun 23 (Churchill Private Debt Manager to attend)<br>Currency | Yes | |
| Pension Fund Annual Report 2022/23 | Yes | Presented at 7 November 2023 meeting |
| Climate Risk policy – implementation Plan | Yes | Presented at 25 July 2023 meeting in conjunction with Climate Policy |
| **Non-Cyclical Planned Work** | **Achieved** | **Comments** |
| Implementation of interim and long-term strategy | Yes | Included in the work plan but with no specified date |

| Cyclical Planned Work | Achieved | Comments |
|---|---|---|
| **7 November 2023** | | |
| Annual review of Custodian | Yes | Presented at 24 January 2024 meeting |
| Annual review of Adviser | Yes | |
| Annual review of Actuary | Yes | |
| Review of Governance Policy | Yes | |
| Whistleblowing Annual Assessment | Yes | |
| Risk Register Review | Yes | |
| Overpayment policy following Death | Yes | |
| Funding Strategy Statement Update | Yes | |
| Cash Policy Review | Yes | Presented at 19 March 2024 meeting |
| **12 December 23 (deferred to 24 Jan 2025)** | | |
| Overall Monitoring Report on Pension Fund to end of Sep 23: (CBRE – Global Property Manager to attend) | Yes | |
| Annual review of Fund Managers Voting & Engagement | Yes | Presented at 19 March 2024 meeting |
| TCFD report 2022/23 | Yes | Presented at 12 September 2024 meeting |
| Triennial mid-point valuation | Yes | Presented at 7 November 2023 meeting |
| Local Pension Board Annual Report 31 March 2023 | Yes | Presented at 7 November 2023 meeting |
| **19 March 24** | | |
| Overall Monitoring Report on Pension Fund to end of Dec 23: Permira (Private Debt) | Yes | |
| Pensions administration Budget 2024/25 | No | Going to Pension Committee 25 June 2024 |
| **Non-Cyclical Planned Work** | **Achieved** | **Comments** |
| Agreed Admission to the fund:<br>Caterlink – St Edwards Schools | Yes | Not possible to predict when new employers will join so won't be scheduled as part of the business plan |

**PENSION COMMITTEE MEETINGS 2023/24**

**ANNEX A**

| Date | Good Governance Framework category | | Topic | Attended By | Duration of meeting |
|---|---|---|---|---|---|
| 25 Jul 23 | Investment | Monitoring of Investments | Noted the Pension Fund Performance Monitoring Report for quarter ending March 2023: received presentations from the Fund's pooling manager London CIV | Cllr Mandy Anderson (Chair)<br>Cllr Philip Ruck (Vice-Chair)<br>Cllr Viddy Persaud<br>Cllr James Glass<br>Cllr Dilip Patel<br>Cllr Joshua Chapman<br>Derek Scott (Trade Union Rep) | 2 hours 30 minutes |
| | Accounting | Annual Report & Accounts | Noted Pension Fund Accounts 2022/23 | | |
| | Investment | Responsible Investment | Agreed the Climate Policy and Action plan and agreed to attend a workshop to determine progress against objectives and further development of action plan | | |
| | Investment | Strategy Review | Agreed the fund manager split of a 2.5% increase to infrastructure allocation | | |
| | Funding | New Employer | Agreed Admission to the fund:<br>Urbaser Limited – Recycling, Waste Collection & Cleansing contract | | |
| | Governance | Service Delivery - Business Planning | Agreed the rolling 2023/24 – 2025/26 Business Plan/ Annual Report on the work of the Pensions Committee for 2022/23 | | |
| 12 Sep 23 | Investment | Monitoring of Investments | Noted the Pension Fund Performance Monitoring Report for quarter ending 30 June 2023: received presentations from the Fund's Private Debt Manager Churchill | Cllr Mandy Anderson (Chair)<br>Cllr Viddy Persaud<br>Cllr James Glass<br>Cllr Dilip Patel | 1 hour 45 minutes |
| | Investment | Strategy Review | Agreed the Investment Strategy Statement and noted compliance against Myner's investment principles | | |

| PENSION COMMITTEE MEETINGS 2023/24 | | | | | ANNEX A |
|---|---|---|---|---|---|
| **Date** | **Good Governance Framework category** | | **Topic** | **Attended By** | **Duration of meeting** |
| | Investment | Responsible Investment | Agreed **T**askforce for **C**limate, related **F**inancial **D**isclosures (TCFD) report for 31 March 2023 | | |
| | Investment | Strategy Review | Agreed to implement the 5% allocation to investment grade credit assets via the LCIV Global Bond Fund | | |
| 7 Nov 23 | Governance | Review of Effectiveness | Noted Annual review of Actuary for the year ending 30 Sept 2023 | Cllr Mandy Anderson (Chair)<br>Cllr Philip Ruck (Vice-Chair)<br>Cllr Viddy Persaud<br>Cllr Dilip Patel<br>Cllr Joshua Chapman<br>Cllr Jacqueline Williams<br>Derek Scott (Trade Union Rep) | 1 hour |
| | Governance | Review of Effectiveness | Noted Annual review of Investment Consultant & agreed contract extension to 31 March 2026 | | |
| | Governance | Policy Review | Agreed Governance Policy & Compliance Statement following review | | |
| | Accounting | Annual Report & Accounts | Agreed the Pension Fund Annual Report 31 March 2023 and noted compliance against CIPFA checklist | | |
| | Governance | Breaches | Noted the results of Whistleblowing Annual Assessment for 30 Sept 2023 and noted no possible breaches reported | | |
| | Funding | Policy | Agreed the Updated Funding Strategy Statement 2023 to reflect legislation changes on DfE guarantee & Pass through policy | | |
| | Investment | Risk Management | Pension Fund Risk Register – updated as of Sept 2023 | | |
| | Pension Administration | Processes | Agreed the continuation of the overpayment policy following death of a pensioner | | |
| | Accounting | Annual Report & Accounts | Noted Local Pension Board Annual Report 31 March 2023 | | |

| PENSION COMMITTEE MEETINGS 2023/24 ANNEX A | | | | | |
|---|---|---|---|---|---|
| **Date** | **Good Governance Framework category** | | **Topic** | **Attended By** | **Duration of meeting** |
| 12 Dec 23 (deferred to 24 Jan 24) | Investment | Monitoring of Investments | Noted the Pension Fund Performance Monitoring Report for quarter ending 30 September 2023: received presentations from the Fund's Global Property Manager CBRE | Cllr Dilip Patel (Chair)<br>Cllr Philip Ruck (Vice-Chair) (via Zoom)<br>Cllr Viddy Persaud<br>Cllr James Glass<br>Cllr Joshua Chapman<br>Cllr Jacqueline Williams | 1 hour 50 minutes |
| | Governance | Review of Effectiveness | Noted Service review of the Pension Fund Custodian for the year to September 2023 | | |
| | Funding | Actuarial Valuations | Noted Pension fund interim Funding position – midpoint of triennial valuation at 30 Sept 2023. | | |
| 19 Mar 24 | Investment | Monitoring of Investments | Noted the Pension Fund Performance Monitoring Report for quarter ending 31 December 2023: received presentations from the Fund's Private Debt Manager Permira | Cllr Mandy Anderson (Chair)<br>Cllr Viddy Persaud<br>Cllr James Glass<br>Cllr Dilip Patel<br>Cllr Joshua Chapman<br>Cllr Stephanie Nunn (virtual attendance) | 2 hours 10 minutes |
| | Investment | Monitoring of Investments | Agreed the updated Cash Management policy | | |
| | Investment | Responsible Investment | Noted the Review of Voting & Engagement Activity for the year to June 23 | | |
| | Funding | New Employer | Agreed Admission to the fund:<br>Caterlink – Catering Services at St Edwards Academy | | |

- Three members constitute a quorum.
- Target dates for issuing agendas were met.

**Pension Committee meetings 2024/25 and onwards**

To assist members to make effective decisions, the Business Plan sets out an indicative timetable for reports to be submitted to the committee which will cover cyclical reports, as shown in **Annex B.**

In addition to the annual cyclical work programme there are a number of key issues that are likely to be considered by the Pensions Committee in the coming year and beyond and will be added to the meeting cycle as appropriate and are set out below:

- Continued development/monitoring of Climate Risk Policy
- Develop and implement approach for climate related engagement
- Task Force on Climate Related Financial Disclosures (TCFD) reporting compliance/gap analysis (subject to regulatory publications)
- Implementation of the interim and long-term Investment
- Consider Local investment & Levelling Up agenda (ongoing considerations at present)
- Potential consideration of Private Equity investment (consider alongside local investment)
- London CIV Pooling progression/Continued consideration of transfer of assets to the London CIV (particularly Multi Asset Credit, Index linked assets)
- Equity portfolio review – including review of emerging market allocation and reflecting net-zero related commitments
- Review of RLAM mandate & Index linked gilts objectives
- Consideration of reallocating into Private Debt/Infrastructure close ended funds
- Governance review of London CIV
- Planning for SAB Good Governance guidance compliance - once guidance is issued
- TPR New Code of Practice compliance check – develop action plan
- New training policy to reflect Good Governance and TPR compliance
- Risk Register –independent oversight of scoring
- Cost transparency analysis
- New contract – Actuary (current contract expires 15 July 2025)
- New contract – Investment Advisor (current contract expires 31 March 2026)
- New contract – Custodial Services (current contract expires 30 September 2026)
- Administration issues i.e. ongoing work associated with the McCloud ruling – readiness for Pensions Dashboard
- New Employer admissions
- Covenant Risk Review
- SAB developments
- Consideration of LGPS Regulation changes and consequential policy, as applicable

- Topical issues discussed as appropriate
- Continued training and development (include training programme following Local Elections May 2026)

## KEY REPORTING DATES / INDICATIVE WORK PLAN 2024/25

**ANNEX B**

| | 25 JUNE 2024 | 1 OCTOBER 2024 | 5 NOVEMBER 2024 | 10 DECEMBER 2024 | 18 MARCH 2025 |
|---|---|---|---|---|---|
| **Formal Committees with Members** | ▪ Overall Monitoring Report on Pension Fund to end of Mar 24: Royal London (Bonds)<br>▪ Pension Fund Accounts 2023/24<br>▪ Business Plan/Report on the work of the Pensions Committee 2023/24<br>▪ Pensions Administration Budget 24/25 | ▪ Overall Monitoring Report on Pension Fund to end of Jun 24: LGIM Passive Equities)<br>▪ Pension Fund Annual Report for 2023/24<br>▪ TPR code of Practice – compliance / Action Plan<br>▪ GAD Section 13 results | ▪ Annual review of Custodian<br>▪ Annual review of Adviser<br>▪ Annual review of Actuary + contract renewal options<br>▪ Review of Governance Policy<br>▪ Whistleblowing Annual Assessment<br>▪ Risk Register Review<br>▪ Overpayment policy following Death<br>▪ Communications Strategy 2024 – 2027<br>▪ Pension Fund charging Policy Review<br>▪ Pensions Administration Strategy Review | ▪ Overall Monitoring Report on Pension Fund to end of Sep 24: UBS (Property).<br>▪ TCFD report 2023/24<br>▪ Local Pension Board Annual Report 31 March 24 | ▪ Overall Monitoring Report on Pension Fund to end of Dec 24: Stafford (Infrastructure)<br>▪ Annual review of Fund Managers Voting & Engagement<br>▪ Pensions Administration Budget 25/26 |
| **Training** | Associated Training | Associated Training | Associated Training | Associated Training | Associated Training |

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**ANNEX B (continued)**

## KEY REPORTING DATES / WORK PLAN 2025/26

| | JUNE 2025 | SEPTEMBER 2025 | NOVEMBER 2025 | DECEMBER 2025 | MARCH 2026 |
|---|---|---|---|---|---|
| **Formal Committees with Members** | ▪ Overall Monitoring Report on Pension Fund to end of March 25: Russell (FX hedging)<br>▪ Business Plan/Report on the work of the Pensions Committee 2024/25<br>▪ Pension Fund Accounts 2024/25 | ▪ Overall Monitoring Report on Pension Fund to end of June 25 –JP Morgan (Infrastructure)<br>▪ Pension Fund Annual Report for 2024/25<br>▪ Annual review of Adviser + Contract renewal options | ▪ Annual review of Custodian + contract renewal options<br>▪ Annual review of Actuary<br>▪ Review of Governance Policy<br>▪ Whistleblowing Annual Assessment<br>▪ Risk Register Review<br>▪ Overpayment policy following Death | ▪ Overall Monitoring Report on Pension Fund to end of September 25 Churchill (Private Debt)<br>▪ TCFD report 2024/25<br>▪ Local Pension Board Annual Report 31 March 25<br>▪ 2025 Valuation results<br>▪ FSS statement review<br>▪ ISS Strategy review | ▪ Overall Monitoring Report on Pension Fund to end of December 25: LCIV (Pooling)<br>▪ Annual review of Fund Managers Voting & Engagement<br>▪ Pensions Administration Budget 26/27 |
| **Training** | Associated Training | Associated Training | Associated Training | Associated Training | Associated Training |

**ANNEX B (continued)**

## KEY REPORTING DATES / WORK PLAN 2026/27

| | JUNE 2026 | SEPTEMBER 2026 | NOVEMBER 2026 | DECEMBER 2026 | MARCH 2027 |
|---|---|---|---|---|---|
| **Formal Committees with Members** | ▪ Overall Monitoring Report on Pension Fund to end of March 26: CBRE (Property)<br>▪ Business Plan/Report on the work of the Pensions Committee 2025/26<br>▪ Pension Fund Accounts 2025/26 | ▪ Overall Monitoring Report on Pension Fund to end of June 26 – Royal London (Bonds)<br>▪ Pension Fund Annual Report for 2025/26 | ▪ Annual review of Custodian<br>▪ Annual review of Adviser<br>▪ Annual review of Actuary<br>▪ Review of Governance Policy<br>▪ Whistleblowing Annual Assessment<br>▪ Risk Register Review<br>▪ Overpayment policy following Death<br>▪ Cash Policy Review | ▪ Overall Monitoring Report on Pension Fund to end of September 26 Permira (Private Debt)<br>• Annual review of Fund Managers Voting & Engagement<br>▪ TCFD report 2025/26<br>▪ Local Pension Board Annual Report 31 March 26 | ▪ Overall Monitoring Report on Pension Fund to end of December 26: Stafford (Infrastructure)<br>▪ Pensions Administration Budget 27/28 |
| **Training** | Associated Training | Associated Training | Associated Training | Associated Training | Associated Training |

## PROVISION OF TRAINING

The Pensions Regulator (TPR) Code of Practice No.14 (April 2015) and its replacement, the new single Code of Practice came into force on 28 March 2024 and includes a requirement for members of the Pension Committee (PC)/Local Pension Board (LPB) to demonstrate that they have an appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Committee/LPB.

A joint training strategy for the PC/LPB was agreed by the Pensions Committee on the 24 November 2015 and presented to the Local Pension Board at its meeting on the 6 January 2016. A Training Strategy review had been deferred pending issuance of guidance/regulations for the anticipated Good Governance Review and TPR New Code of Practice. The Code of Practice has now been issued and officers will review compliance against the new code and commence with a Training Strategy review during 2024/25.

The PC of the London Borough of Havering Pension Fund fully supports the intentions behind CIPFA's Knowledge and Skills Code of Practice and has agreed to formally adopt its principles. The updated June 2021 Knowledge and Skills framework for committee members was adopted as part of the training programme following the Local Borough elections in May 2022.



As set out in the Council's constitution, committee procedure rules, a member appointed to the PC shall have received, or shall within six months of appointment receive, training appropriate to its membership. If a member does not undertake the required training within six months of appointment, then that member shall not partake in the decision making of the Committee until their training has been completed. Long membership of the committee is encouraged in order to ensure that expertise is developed and maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the term in Council, unless exceptional circumstances require a change.

Maintaining expertise, experience and knowledge is a key focus for the committee in order to meet the "qualitative test" under Markets in Financial Instrument Directive (MiFID 11). Firms will undertake an assessment of the expertise, experience and knowledge of the local authority and its pension fund committee in order to be reasonably assured that they are capable of making their own investment decisions and have an understanding of the risks involved before a firm will permit election to professional status. All requests for election have been granted for existing investment service providers.

A training budget has been agreed for the provision of training for £10,000 but this will be re-evaluated as appropriate. Training costs will be met from the Pension Fund.

The majority of training and development is cyclical in nature, spanning the four-year membership of the PC. Associated training and development will be given when required and linked to the Pension Fund meeting cyclical coverage as shown in **Annex B.**

In addition to the cyclical training and development that the PC will have over the lifetime of their membership, training will be provided in the areas where it has been specifically requested or has been identified as required. Special PC meetings will be arranged from time to time to discuss matters as appropriate

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

Members and Officers also attend seminars arranged by Fund Managers or other third parties who specialise in public sector pensions.

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

The Head of Pensions and Treasury, Projects and Contracts Manager, Pension Fund Manager (Finance) and /or Accountant also attends regular forum meetings with peers from other London Boroughs; this gives access to extensive opportunities of knowledge sharing and benchmarking data.

Officers within oneSource Pensions teams also benefited from sharing of best practice

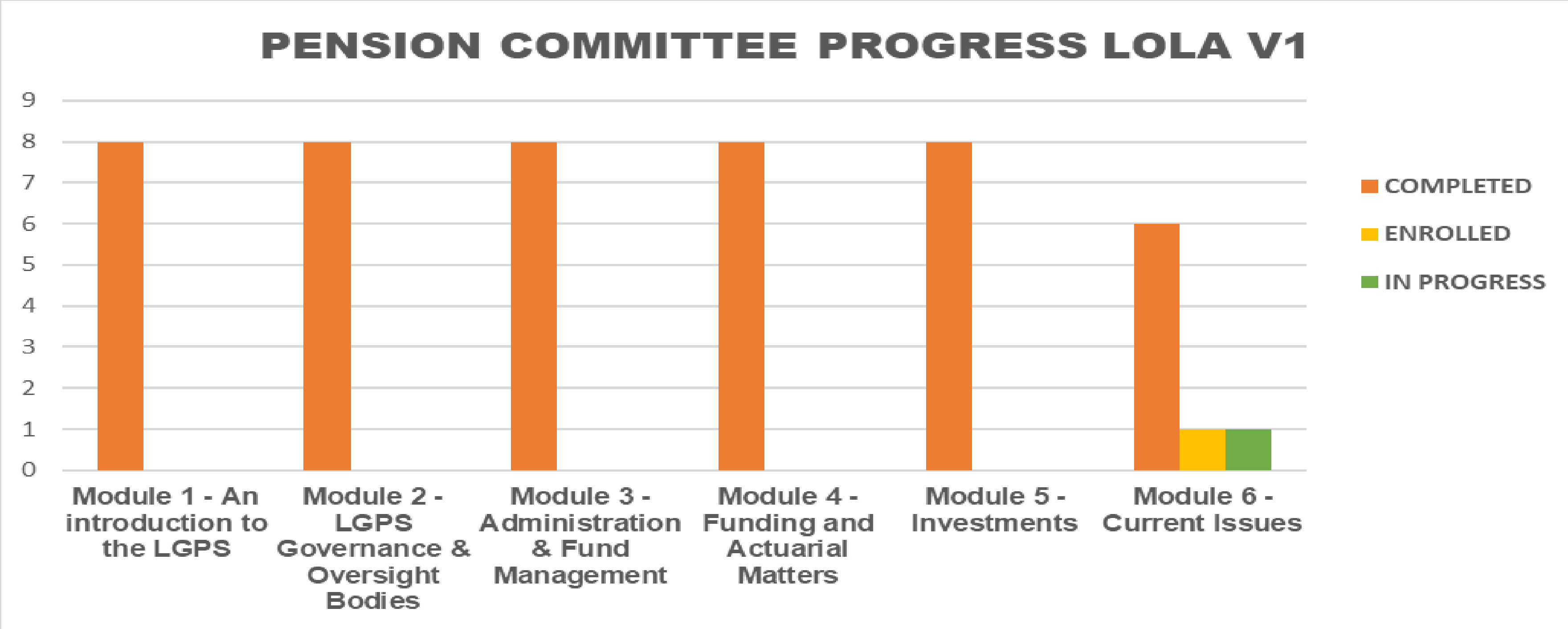
The London CIV runs periodic seminars to aid Officer and Committee member development.

The Pensions Regulator has launched an e-learning programme and this is available for members of the PC and LPB to use.

Training and development took place during 2023/24 to ensure that Members of the Committee were fully briefed in the decisions they were taking. Training logs are maintained and attendance and coverage can be found in **Annex C.** Training will be recorded following the May 2022 elections to demonstrate continuous development and training during their full term of elected office on the PC.

The Fund has also subscribed to the LGPS Online Learning Academy (LOLA) Launched by our Actuaries (Hymans). There were issuances of learning modules under version 1 (v1) and version 2 (v2). This is an online platform designed to support the training needs of PC, LPB and Officers. The training is split into a number of modules covering the CIPFA Knowledge & Skills Framework and TPR's Code of Practices. Each module contains short 'videos on demand' presentations of 20 minutes or less with supplemental learning materials and quizzes. PC members were requested to complete LOLA v1 modules to meet the Council's constitution, committee procedure rules.

The Fund receives regular progress reports, allowing it to easily evidence member's development and progress as at 31 March 2024 can be seen in the table below:

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The fund transitioned to the LOLA v2 module in October 2023 and the PC are encouraged to refresh their learning by completing the modules under version 2. Progress made as at 31 March 2024 can be seen in the following table:

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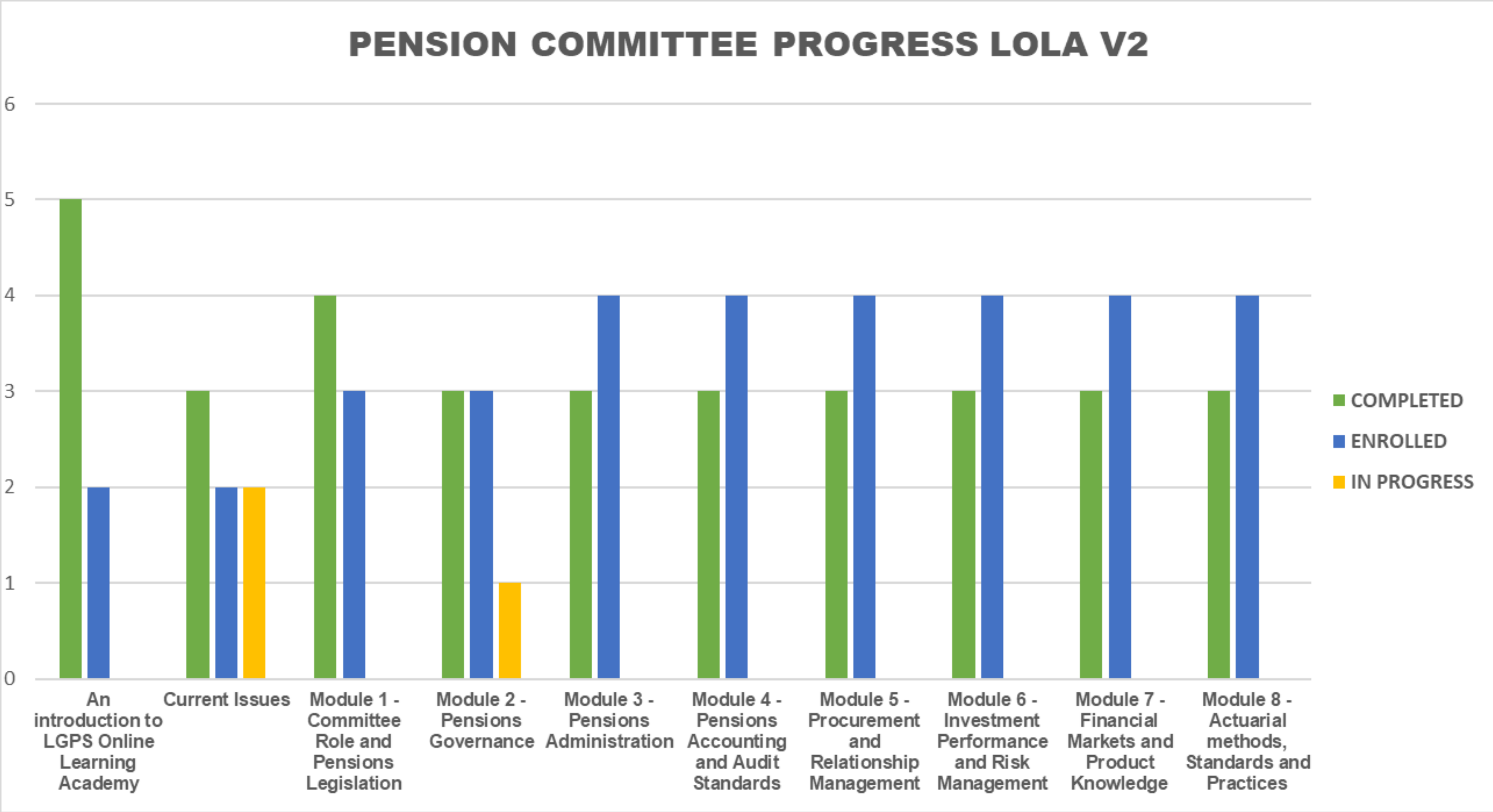
PENSION COMMITTEE PROGRESS LOLA V2
6
5
4
3
2
1
0
COMPLETED
ENROLLED
IN PROGRESS
An introduction to LGPS Online Learning Academy
Current Issues
Module 1 - Committee Role and Pensions Legislation
Module 2 - Pensions Governance
Module 3 - Pensions Administration
Module 4 - Pensions Accounting and Audit Standards
Module 5 - Procurement and Relationship Management
Module 6 - Investment Performance and Risk Management
Module 7 - Financial Markets and Product Knowledge
Module 8 - Actuarial methods, Standards and Practices

| PENSION COMMITTEE TRAINING (May 2022 Election - 31 March 2024 | | | | | Annex C |
|---|---|---|---|---|---|
| **Date** | **Good Governance/CIPFA Framework category** | | **Topic** | **Attended By** | **Duration** |
| 23 Jun 2022 | ALL | ALL | Introduction to Pensions | Cllr Mandy Anderson (Chair) | 1 hour |
| 11 Jul 2022 | ALL | Financial/ Investment Strategy, pooling & Financial Mkts & products | LCIV Induction for new Pension Committee Chairs | Cllr Mandy Anderson (Chair) | 1 hour |
| 19 Jul 2022 | ALL | ALL | New Pension Committee induction | Cllr Mandy Anderson (Chair)<br>Cllr Dilip Patel<br>Cllr Viddy Persaud<br>Cllr Julie Wilkes<br>Cllr Philip Ruck<br>Cllr Matthew Stanton | 1 hour 30 minutes |
| 5/6 Sept 2022 | Investment | Strategy Implementation – Asset pooling | LCIV Annual Strategy Conference | Cllr Mandy Anderson (Chair)<br>Derek Scott (Union Rep) | 12 hours |
| 20 Oct 2022 | Governance | Governance | LGA Fundamentals Day 1 | Cllr Mandy Anderson (Chair) | 7 hours |
| 10 Nov 2022 | Governance | Strategy Implementation – Asset pooling | LGA Fundamentals Day 2 | Cllr Mandy Anderson (Chair) | 7 Hours |
| 5 Dec 2022 | Funding | Funding Strategy & Actuarial Methods | 2022 Valuation results | Cllr Julie Wilkes<br>Cllr Viddy Persaud<br>Derek Scott (Union Rep) | 2 hours |
| 15 Dec 2022 | ALL | ALL | New member induction | Cllr James Glass | 1 hour |

| PENSION COMMITTEE TRAINING (May 2022 Election - 31 March 2024<br>Annex C | | | | | |
|---|---|---|---|---|---|
| **Date** | **Good Governance/CIPFA Framework category** | | **Topic** | **Attended By** | **Duration** |
| 19/20 Jan 2023 | Governance | ALL | Local Government Conference 2023 | Cllr Mandy Anderson (Chair)<br>Derek Scott (Union Rep) | 12 hours |
| 6 Mar 2023 | Investment | Strategy Implementation, Risk management | Education session on Climate Metrics | Cllr Mandy Anderson (Chair)<br>Cllr Philip Ruck<br>Cllr Viddy Persaud<br>Cllr Stephanie Nunn<br>Derek Scott (Union Rep) | 1 hour |
| 17 Jul 2023 | ALL | ALL | New member induction | Cllr Joshua Chapman | 1 hour |
| 18 Jul 2023 | Governance | Investment Strategy, Pooling | LCIV AGM | Cllr Mandy Anderson<br>Cllr Viddy Persaud | 2 hours |
| 25 Jul 23 | Governance | Management accounting | Havering Pension Fund Accounts | Cllr Mandy Anderson (Chair)<br>Cllr Philip Ruck<br>Cllr Viddy Persaud<br>Cllr Dilip Patel<br>Cllr James Glass<br>Cllr Joshua Chapman<br>Derek Scott (Union Rep) | 30 minutes |
| 4/5 Sep 23 | Governance / Investment | Strategy Implementation – Asset pooling | LCIV Conference | Cllr Mandy Anderson (Chair)<br>Cllr James Glass | 12 hours |
| 12 Sep 23 | Investment | Financial markets and Products | Corporate Bonds/LCIV Global Bond Fund | Cllr Mandy Anderson (Chair)<br>Cllr Viddy Persaud<br>Cllr James Glass | 50 minutes |
| 17 Oct 2023 | ALL | ALL | New member induction | Cllr Jacqueline Williams | 1 hour |

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| PENSION COMMITTEE TRAINING (May 2022 Election - 31 March 2024<br>Annex C | | | | | |
|---|---|---|---|---|---|
| **Date** | **Good Governance/CIPFA Framework category** | | **Topic** | **Attended By** | **Duration** |
| 27 Mar 24 | Investment | Strategy Implementation, Risk management | Climate Policy workshop | Cllr Mandy Anderson (Chair)<br>Cllr Jacqueline Williams | 2 hours 45 minutes |
| Annex A Committee dates | ALL | ALL | Various – refer to Annex A | Pensions Committee | 9 hours 15 minutes |

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Havering
LONDON BOROUGH

# London Borough of Havering Pension Fund

## Admissions Policy

December 2023

# Admissions policy context

### Introduction

It is essential for the Administering Authority to establish its fundamental approach to the risks involved in the admission of new employers to the Fund.

The purpose of this policy is to ensure that only appropriate bodies are admitted to the Fund and that the financial risk to the Fund and to other employers in the Fund is identified, minimised, and managed accordingly. As well as providing appropriate guidance and policy decisions on specific key elements this document also sets out the Fund's default position in relation to the admission of new employers. While it is possible for a prospective new employer to request alternatives, any deviation from the stated default position would have to ensure no risk to other scheme employers and will be at the discretion of the Fund to agree to. This Policy is effective from DD/MMYYYY. It has been approved by the London Borough of Havering Pension Fund Committee on DD/MMYYYY,

This policy will be reviewed at least every three years following triennial valuations or following changes in the Regulations pertaining to employers joining or leaving the Fund.

The Local Government Pension Scheme Regulations 2013, ("LGPS Regulations") sets out the various types of employers that can participate in the scheme and the different requirements that apply to each. These can be summarised as:

**Bodies listed in Part 1 to Schedule 2** the council and academies. These bodies must provide access to the LGPS to their employees (assuming they are not eligible to be members of other pension schemes)

**Bodies listed in Part 2 to Schedule 2**
often referred to as designating employers, as they have the right to decide who of their employees are eligible to join the scheme. Includes entities connected to bodies in Part 1 above. If a relevant designation is made the Administering Authority cannot refuse entry into the scheme in respect of that employer

**Bodies listed in part 3 to schedule 2**
admission bodies, who can apply to participate in the scheme. Admission bodies can encompass a variety of different types of employers. These are –

a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);

- a body, to the funds of which a Scheme employer contributes;
- a body representative of any Scheme employers, or local authorities or officers of local authorities;
- a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—
  - the transfer of the service or assets by means of a contract or other arrangement (i.e. Outsourcing),
  - a direction made under section 15 of the Local Government Act 1999;
  - directions made under section 497A of the Education Act 1996.
- a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

When an administering authority is considering permitting a body to become an admission body, the LGPS Regulations include some discretions relating to the creation and management of admission agreements. These discretions are considered within this policy. The discretionary areas are:

- Part 3 of Schedule 2 (para 1) – Whether or not to proceed with admission agreements
- Part 3 of Schedule 2 (para 9(d)) – Whether to terminate the admission agreement
- Regulation 54(1) – If the Fund will set up separate pension funds in respect of admission agreements

## Interaction with Funding Strategy Statement (FSS) and other documents

The FSS sets out high level policies in a number of areas relating to the treatment of scheme employers. The key areas covered by the FSS relating to admission of new employers are:

Responsibilities of the key parties;

Calculation of funding positions and individual employer contribution rates;

Link to investment policy set out in the Investment Strategy Statement; and

Key risks and controls.

The information contained with the FSS applies equally to admission bodies as to other participating employers within the Fund. This admissions policy, therefore, supplements the general policy of the Fund as set out in the FSS and should be read in conjunction with that document, together with its Pensions Administration Strategy, Outsourcing Guide and Communications Policy.

## Background

A scheme employer is responsible for any surplus or deficit arising during the period of participation in the Fund so that if or when that participation ceases, it is 100% funded. However, ultimately, if the scheme employer was to fail or cease to exist and any deficit cannot be met by the body or claimed from any bond, indemnity or guarantor (where appropriate), the liability will fall to other employers in the Fund (either the awarding authority on the failure of a service provider, any guarantor employer or all other employers, depending on the circumstances and the type of body). It is prudent therefore for the Fund to ensure any such risks are minimised and mitigated.

Although the risks may not be able to be eliminated completely, there are a number of options that can be considered to try and mitigate these risks. These are summarised below, with the policy position set out in Appendix 1:

**Entry conditions** – to what extent, if any, the Administering Authority can determine entry conditions for any new employer and the manner in which those applications will be considered and approved.

**Pass through arrangements** – an arrangement where the Letting Authority retains all pensions risks relating to the admission body. Any deficit or surplus liability at cessation will revert to the Letting Authority.

**Requirements for a bond/indemnity or guarantor** – understanding the risk that a new employer might place on the Fund, usually through underfunding on exit from the Fund, and the mitigations that can be put in place (in the form of a bond/indemnity or guarantor) to reduce or remove that risk.

**Risk sharing** – more often adopted with admission bodies, and while not changing the full cost of the pension benefits, the Administering Authority can decide its approach to the sharing of risk with an established sponsoring employer (e.g., fixed employer contribution rates, pooling the admission body with the scheme employer, etc.).

**Allocating assets on entry** – on admission each new employer will notionally be allocated assets in the Fund, from which time they will be tracked, and employer contributions set with a view to achieving solvency should the employer leave the scheme. Depending on the type of employer concerned the Administering Authority will need to decide how that initial asset allocation should be handled (e.g., given assets equal to 100% of the liabilities transferred or required to take on a share of any funding deficit at the outset).

**Contribution rates and other costs** – the Administering Authority will need to decide how the initial contribution rate is set for any new scheme employers on joining the scheme. Decisions may also be required in relation to other costs, e.g., legal, or actuarial costs, and how these may be passed onto employers.

**Pooling** – there may be circumstances where a new employer has strong links to an existing employer, or where there is homogeneity amongst certain groups of employers. In these circumstances there may be a desire on the part of the employers to share some of the pension risk, which can be achieved via a pooling agreement. In simple terms, this will allow the bodies to effectively be treated as if it were one employer. As a result, the same employer contribution rate and other funding arrangements will apply (generally equally) in relation to all members.

**Ongoing monitoring** – it is important that monitoring of scheme employers is carried out throughout their term of participation and, where considered necessary, appropriate remedial action taken to safeguard all employers within the Fund. This can be achieved via various methods, such as regular funding level reviews, risk assessments and requirements to notify the Administering Authority of any changes in circumstances.

**Termination/exit requirements** – one of the greatest risks to the Fund (and its participating employers) is that a body ceases to exist with an outstanding deficit that it cannot pay, and which will not be met by any bond, indemnity or guarantor. Under the terms of the LGPS Regulations a termination valuation is required to be carried out at the point a scheme employer ceases to participate (e.g. as a result of the last active member leaving or the termination of a contractual arrangement with another scheme employer) in order to ascertain the exit payment due in relation to any deficit or payable on account of a funding surplus or alternatively if any exit credit is due back to the ceasing employer as a result of a surplus existing.

**Future cessations** – when a scheme employer ceases to participate in the scheme its assets should be equal to its liabilities on an appropriate basis. In these circumstances, the Administering Authority may seek to increase or reduce the scheme employer's contributions to the Fund in the period leading up to its expected exit (if known) in order to target a position where the employer's assets are equal to its liabilities on an appropriate basis. To a limited degree, this can also reduce any overfunding at exit.

**Basis of termination valuation** – as with any actuarial valuation, the purpose of a termination valuation is not so much to predict the cost of providing the Fund benefits of the relevant members (which will not be known until the last benefit payment is made), but to assess how much the Fund should hold now to meet the future expected benefit payments. The amount required is heavily influenced by the basis used for the calculation of the liabilities, which in turn will ultimately depend on the particular circumstances of the cessation. For example, the range of assumptions can include the ongoing funding basis, a gilts basis and a "buy-out" basis.

**Payment of cessation debt or exit credit** – when the fund actuary carries out a cessation valuation, they are also required to certify the contributions due to the Fund, or any surplus that might need to be refunded to the exiting employer. The Fund's default approach is for any exit debt be paid on one single lump sum payment. However, the Fund may consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation. The Fund will also consider written requests from employers to enter into a deferred debt agreement (DDA) where sufficient security is put in place.

There is provision within the LGPS Regulations that clarifies what should happen if it is not possible to recover the cessation payment, for example due to the exiting employer going into liquidation and no assets being available, spreading the recovery of the costs across all remaining scheme employers with active members.

In circumstances where there is a surplus, the administering authority may determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer. Exit credits are paid in a single instalment.

## Statement of Principles

The Fund's policy is drafted on the basis of the following key principles:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to set clear principles and ensure there is a consistency of requirement for employers in respect of all admissions and cessations to and from the London Borough of Havering Pension Fund
- to ensure employers recognise the impact of their participation in the Local Government Pension Scheme, helping them manage their pension liabilities as they accrue and understanding the effect of those liabilities on the ongoing operation of their business;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.
- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term;
- where an academy or a Local Education Authority school is the letting authority, the fund requires the consequent admissions to be set up with a pass-through arrangement (which is closed to new members) from the effective date of this policy; and
- where the letting authority is not an academy, pass through is the default approach for the admission of all new contractors to the Fund from the effective date of this policy.

There is also an overriding objective to ensure that the LGPS Regulations and any supplementary guidance (in particular the Best Value Authorities Staff Transfer (Pensions) Direction 2007 and Fair Deal guidance) as they pertain to admission agreements are adhered to.

All transfer contracts must contain the right to membership of the LGPS to all eligible transferring staff and the right for them to enforce this, both in initial contracts and any subsequent TUPE transfers of those staff to other admission bodies.

Finally, apart from in exceptional circumstances, the Fund's terms included within their admission agreements will be non-negotiable.

### Default position

In formulating this Admissions Policy, the Administering Authority has set out its default position in relation to a number of key areas. These are set out below, as well as within the policy statements set out in Appendix 1.

### Admission Agreement

The Fund has in place a standard Admission Agreement template for use for all employers wishing to be admitted to the Pension Fund.

The Fund's default position is that it will not amend its standard Admission Agreement template.

In all cases it is assumed that an Admission Body accepts and agrees to meet the conditions of participation detailed within London Borough of Havering Pension Fund's standard Admission Agreement.

If, in exceptional circumstances, a prospective Admission Body wishes to enter into discussions around changing clauses within the template additional costs reflecting and legal costs incurred by the Fund and staff time involved on the Fund side may be charged to the Admission Body. This will be at the discretion of the Fund. Additionally, any agreement on amendments will be at the discretion of the Administering Authority and will need to be authorised by the relevant person as laid down in the scheme of delegation detailed in the Governance and Compliance Statement as required under regulation 55.

### Risk sharing/pass-through

Where the Fund is satisfied with the funding risks, the Fund’s default position is to require new admissions be set up on a pass-through basis. The Fund mandates pass through for all new admissions where the contracts are let by a local authority school or academy.

The approach should be documented within the admission agreement as well as the transfer agreement. Alternatively, letting scheme employers and admission bodies may operate risk sharing or pooling outside of the admission agreement by entering into a separate Side Agreement. While not necessarily a party to this side agreement, the Fund may treat the admission agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties. Any risk sharing / pooling / passthrough arrangements will need to be detailed within the admission agreement.

For new admissions on a pass-through basis, the contractor’s pension contribution rate is set equal to 25.0% of pay for the duration of the contract. No formal bond or guarantee will be required from these admitted bodies.

### Academy outsourcings

Due to updates in the Education and Skills Funding Agency policy (dated 17 May 2023), all contracts let by academies under the following conditions are now guaranteed by the Department for Education:

1. Staff currently working for an academy who are transferred to an outsourced contractor under TUPE.
2. Staff who transfer to an outsourced contractor under TUPE before the academy converted (i.e., when it was still a maintained school) and the outsourcing contract passes to the academy following conversion.
3. Staff who currently work for the local authority which is providing services to the academy under the contract, but the contract is then awarded to another third-party contractor and the staff transfer to the contractor under TUPE.

This is only applicable to staff who are eligible for LGPS membership and if the admission is operating under a pass-through arrangement. At cessation, any liabilities will revert back to the academy and the Government will be liable for any deficit should the academy cease.

The Fund expects academies to ensure that any outsourcing complies with the requirements set out in the 'DfE Academy Trust LGPS Guarantee policy' and confirm to the Fund that the requirements are met. Where the 'Guarantee' terms cannot be met, and no suitable alternative is agreed, the Fund may refuse admission of the contractor as an admission body.

It is therefore the Fund's position that any contracts let to admission bodies by academies will be admitted to the Fund on a pass-through basis. The contribution rate and bond requirements will be as detailed above.

### Contributions and other costs

At the beginning of each admission agreement, it will be necessary to determine what employer contribution rate will be payable by the admission body. The employer must pay to the Pension Fund:

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| The **full** employer contribution rate and any secondary lump sum deficit amount as determined by the fund actuary | All employee contributions payable | All APC amounts payable |
| Any other contributions required | Early and ill health retirement strain costs | Any other amounts specified within the admission agreement or regulatory requirements |
| Lump sums in relation to any early retirements or early payment of pension benefits | Reimbursement of the administering authority's or other bodies costs due to poor administration by the admission body | Any interest amounts due under the regulations |

There will also be circumstances where additional costs arise, such as legal costs or actuarial costs. There will be a charge for the Fund Actuary valuation on admission and cessation for which the employer will be liable. There will be a charge for the Fund Legal Advisor for drawing up and getting the admission agreement and any Bond or Guarantee agreement signed off on admission for which the employer will be liable. These costs can vary according to the complexity and time involved in each case. The indicative amount will be notified to the employer at the time of application. The final cost will be notified to the employer on completion of the admission process and an invoice will be issued.

### Bond/guarantee requirements

Bodies admitted under Paragraphs 1(a) to (c) and (e) of Part 3 of Schedule 2 to The Regulations must provide a guarantor considered by the Fund to be reliable and financially durable (generally only a local authority or central government department) or a bond/indemnity the Fund considers having equivalent strength and coverage.

For bodies admitted under Paragraph 1(d) of Part 3 of Schedule 2 to The Regulations there is a preference for a bond or indemnity to be provided.

There is no requirement for a bond or guarantor to be provided for scheduled or designating employers.

Unless requested by the letting authority, admission bodies admitted on a pass-through basis do not require a bond.

### Exiting the Fund

The Fund's approach to dealing with employers exiting the Fund, including the issue of deferred debt arrangements, issuance of suspension notices and the collection of exit debts and payment of surpluses on exit are set out in its FSS.

Where an employer is expecting its participation in the Fund to come to an end it is encouraged to open a dialogue with the Fund as early as possible, to commence planning for the termination. Where the Fund becomes aware of an employer's participation in the Fund ceasing it reserves the right to amend an employer's minimum contributions such that the value of the assets of the employer will be neither materially more nor materially less than its anticipated liabilities at the date it appears to the Fund that the employer will cease to be a participating employer.

Where a pass-through arrangement is in place, the fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, assuming the terms of the admission agreement and commercial agreement were met, the cessation valuation will record nil assets and liabilities for the ceasing employer and therefore that no cessation debt or exit credit is payable to or from the Fund.

### Policies

The Administering Authority's policies in relation to the admission of new scheme employers are set out in Appendix 1.

# Appendix 1 - Admissions

The following table sets out a summary of the various scenarios that may exist for the admission of scheme employers into the Fund, along with its approach to their on-going monitoring and where appropriate their exit from the Fund.

| | Scheduled bodies (Part 1 of schedule 2) | Designating employers (Part 2 of schedule 2) | Admission bodies (Part 3 of schedule 2) |
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| **Entry conditions and requirements of the Fund** | | | |
| Entry conditions | All new Part 1 employers (incl. academies) must ensure Fund is aware of their creation.<br><br>A designating employer should provide the Fund with a signed copy of its resolution, confirming who is eligible for membership of the Fund | | Will consider applications from bodies:<br>– with links to a scheme employer; or<br>– that provides services or assets on behalf of a scheme employer.<br><br>Agreements can be open or closed, so long as necessary protections are in place.<br><br>All new outsourcings for academies and Local Education Authority schools must be closed to new entrants. |
| Bond/indemnity /guarantor | Not applicable | | Pass through admissions: Generally, no requirement for a bond from the admission body to be put in place, unless requested by the letting authority.<br><br>Other admissions: Admission body to undertake risk assessment to the satisfaction of the administering authority (and scheme employer were seeking admission as a body under Par 1(d) to Part 3 of Schedule 2).<br><br>Admission body to put in place a secure and financially durable bond to the satisfaction of the administering authority or agree and alternative guarantor (generally with a scheme employer and/or government department).<br><br>Documentary evidence of the bond or guarantee must be provided to the administering authority by the admission body. |

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| | | The level of risk must be reviewed, and any associated security renewed on an annual basis |
| Risk sharing | Not applicable | Where the Fund is satisfied with the funding risks, the Fund's default position is to require new admissions to be on a pass-through basis. Pass through is mandated for Local Education Authority schools and academies. |
| Approval | The Fund has no power to refuse participation of any new employer set up under Part 1 of schedule 2 and where the Fund is designated as the appropriate Fund for that employer.<br><br>The Fund has no power to refuse participation of an employer under Part 2 of schedule 2, although it will require sight of a signed copy of the relevant resolution to confirm the employees eligible for participation in the scheme.<br><br>All new employers will be reported to the Pension Committee and Pension Board for information only. | Fund officers to be responsible for ensuring prospective admission bodies meet the necessary criteria.<br><br>Admission agreement template will generally be standard and non-negotiable.<br><br>Final decision to be reported to the Pension Committee and Pension Board for information only |
| **Financial aspects of entry** | | |
| Asset allocation | Assets for any new employer will be calculated using the Fund's ongoing funding basis, as set out in the FSS.<br><br>Academies may be pooled with other academies as part of a Multi Academy Trust (MAT).<br><br>Where a new employer is created from an existing scheme employer the initial asset allocation will be based on a share of the ceding employer's assets, with consideration taken of the ceding employer's estimated deficit as at the date of transfer. | Dependent on type of admission body:<br><br>– For pass through admissions – no assets or liabilities are transferred to the new admission body<br><br>– For new service providers - 100% of past service liabilities<br><br>– For all others – to be agreed on a case-by-case basis.<br><br>In all cases, based on Fund's on-going funding basis and tracked and adjusted during period of admission at each formal valuation |

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| Investment strategy | Set for the Fund as a whole | |
| Contributions | Set in accordance with Funding Strategy Statement.<br><br>Will be required to pay additional amounts (strain) in respect of:<br><br>- non-ill health early retirements;<br><br>- employer award of additional pension; and<br><br>- additional costs incurred by administering authority resulting from employer poor performance.<br><br>Ordinarily strain payments must be made to the Fund within the year in which the strain cost was incurred. | Set in accordance with Funding Strategy Statement.<br><br>Additional amounts required in line with those for Scheduled and Designating employers.<br><br>For admission bodies operating under a pass-through arrangement, the employer contribution rate will be set at 25.0% of pay for the duration of the contract. |
| Other employer costs | May require payment of actuarial, legal and other justifiable costs incurred as a result of participation in the Fund, together with any additional costs incurred by administering authority resulting from an employer's poor performance. | |
| Pooling | Ordinarily pooling will not be available. The only exception would be academies who can be pooled as part of a MAT. | Where it is believed to be advantageous, and all parties agree the administering authority may agree to pooling with the letting scheme employer. |
| **Employer monitoring** | | |
| On-going monitoring | The Fund reserves the right to review a scheme employer's funding position annually, or more frequently.<br><br>Where it appears that there has been a significant change to the liabilities or covenant of an employer than expected at the last funding valuation the employer contribution rate may be subject to review during the inter-valuation period. | Where applicable, the Fund will ensure the ongoing assessment of risk related to each admitted body, to ensure the level of bond/indemnity cover remains appropriate.<br><br>Employer contribution reviewed no less frequently than as part of formal valuations (inter-valuation may be undertaken if required if it appears there has been a significant change to the liabilities or covenant of an employer than allowed for at preceding formal valuation, or where the employer may become an exiting employer) |

| Cessation terms and requirements | | |
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| Termination requirements | The Fund will take legal advice on the appropriate triggers that might lead to termination of a scheme employer’s participation in the fund (e.g., last active leaving). | |
| Future cessations | A provisional cessation valuation will be carried out as soon as the Fund becomes aware that a scheme employer may be exiting the scheme for whatever reason. | Carry out a “provisional” valuation as soon as Fund is aware of the likelihood of an employer exiting the Fund.<br><br>For an admission body the Fund reserves the right to undertake ongoing annual assessments where it becomes aware that the organisation may cease to participate in the Fund.<br><br>Fund reserves the right to undertake exit valuation on a “low-risk”/”gilts” basis to reduce on-going risk to remaining scheme employers.<br><br>Where a pass-through arrangement is in place, there is no cessation debt or exit credit payable to or from the Fund where the admissions and commercial terms have been met. |
| Basis of termination valuation | Valuation approach and assumptions set out in FSS, requiring the scheme employer to make an appropriate exit debt payment immediately, or receive an exit credit. | |
| Suspension Notice | Will consider issuing a suspension notice for a period up to three years, where, in the reasonable opinion of the Fund, the exiting employer is likely to have one or more active members in relation to the Fund within the period specified in the suspension notice.<br><br>Fund will always seek to recover the exit payment due at the point no more active members exist. | |
| Exit debt | To be considered in line with the Fund’s FSS.<br><br>Exit debt usually collected as a single lump sum. In exceptional circumstances where an employer is unable to pay the required cessation payment in full without being materially detrimental to their financial situation, the Fund may consider written requests from employers to spread the payment over an agreed period.<br><br>The Fund will also consider written requests from employers to enter into a Deferred Debt Agreement (DDA) where sufficient security is put in place.<br><br>Where a pass-through arrangement is in place for an admission body, no exit debt is required from the exiting employer. | |

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| Exit credit | To be considered in line with the Fund's FSS.<br><br>The administering authority may determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer.<br><br>Exit credits will not be payable where an admission has a pass-through agreement in place. |