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Havering
LONDON BOROUGH

PENSIONS COMMITTEE
AGENDA

7.00 pm	Tuesday 20 September 2016	Town Hall, Main Road, Romford

Members 7: Quorum 3

COUNCILLORS:

Conservative (3)	Residents' (2)	East Havering Residents' 1	UKIP (1)
John Crowder (Chairman) Melvin Wallace Jason Frost	Stephanie Nunn Nic Dodin	Clarence Barrett	David Johnson (Vice-Chair)

Trade Union Observers

(No Voting Rights) (2)

John Giles, (Unison)
Andy Hampshire, GMB

Admitted/Scheduled Bodies Representative

(Voting Rights) (1)

Heather Foster-Byron

For information about the meeting please contact:
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Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

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

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

3 DISCLOSURE OF INTERESTS

Members are invited to disclose any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 4)

To approve as correct the minutes of the meeting held on 14 June 2016 and authorise the Chairman to sign them.

5 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 2016 (Pages 5 - 20)

Report attached.

6 RESPONSIBLE INVESTMENT: MANAGER REVIEW (Pages 21 - 30)

Report attached.

7 PENSION FUND ACCOUNTS 2015/16 (Pages 31 - 64)

Report attached.

8 PENSION FUND ANNUAL REPORT - YEAR ENDED 31 MARCH 2016 (Pages 65 - 256)

Report attached.

9 PUBLIS SERVICE PENSIONS ACT - SECTION 13 VALUATION (Pages 257 - 356)

Report attached.

10 URGENT BUSINESS

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

11 EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

12 EXEMPT MINUTES OF THE MEETING (Pages 357 - 360)

To approve as correct the exempt minutes of the meeting held on 14 June 2016 and authorise the Chairman to sign them.

13 HYMANS ROBERTSON REVIEW OF FUND PERFORMANCE FOR THE QUARTER ENDING 30 JUNE 2016 (Pages 361 - 382)

Report attached.

14 ROYAL LONDON ASSET MANAGEMENT PERFORMANCE REPORT (Pages 383 - 408)

Report attached.

15 RUFFER LLP, PERFORMANCE REPORT. (Pages 409 - 434)

Report attached.

Andrew Beesley
Committee Administration Manager

MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Town Hall, Main Road, Romford
14 June 2016 (7.00 - 8.40 pm)

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman), Jason Frost and Steven Kelly (In place of Melvin Wallace)
Residents' Group	Nic Dodin and Stephanie Nunn
East Havering Residents	Clarence Barrett
UKIP	David Johnson (Vice-Chair)
Admitted/Scheduled Bodies	Heather Foster-Byron
Trade Union Observers	John Giles (UNISON)

Apologies were received for the absence of Councillor Melvin Wallace and John Hampshire (GMB).

All decisions were taken with no votes against.

The Chairman reminded Members of the action to be taken in an emergency.

1 **MINUTES OF THE MEETING**

The minutes of the meeting held on 15 March 2016 were agreed as a correct record and signed by the Chairman.

2 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 2016**

Officers advised the Committee that the net return on the Fund's investments for the quarter to 31 March 2016 was 1.4%. This represented an under performance of -0.8% against the combined tactical benchmark and an under performance of -6.9% against the strategic benchmark.

The overall net return for the year to 31 March 2016 was -1.2%. This represented an under performance of -2.8% against the tactical combined benchmark and an under performance of -7.7% against the annual strategic benchmark.

At the close of business on 31 March 2016 the total combined value of the fund was £572.2 this represented an increase of £10.52 from the position at the close of business on 31 December 2015. Officers advised that as at the end of May the fund had seen a small drop to approximately £563m.

The Committee had received an update from Hymans Robertson and a presentation from GMO on the performance of their Global Real Return (UCITS) Fund.

Officers advised the Committee that the Pension Fund Actuaries would be undertaking the triennial valuation of the Fund based on the data as at 31 march 2016. It was expected that a draft report would be available by the end of October. Earlier indications were that the actuaries would look to retain the status quo for Havering.

The Committee **noted** the reports and presentation.

3 **PENSION FUND AUDIT PLAN 2015/16**

Officers submitted details of the audit plan for the 2015/16 Pension Fund Accounts. This year would be the first year when the accounts would be audited by Ernst & Young LLP.

In the planning stage Ernst & Young had identified one significant risk i.e. the risk of management override of controls. Their Approach to this would be as follows:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements;
- Reviewing accounting estimates for evidence of management bias; and
- Evaluating the business rational for significant unusual transactions.

This approach was similar to that adopted by the previous auditors.

The indicative fee for the audit was £21,000, identical to last year’s fee.

We have noted the report and timetable.

4 **LOCAL GOVERNMENT PENSION SCHEME: LONDON BOROUGH OF HAVERING EMPLOYER DISCRETIONS STATEMENT OF POLICY AND DISCRETION DECISIONS**

In accordance with the Local Government Pension Scheme Regulations (LGPS) 2013 and the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014, Scheme employers participating in the LGPS in England and Wales were required to formulate, publish and keep under review a Statement of Policy on certain discretions which they had the power to exercise in relation to members of the scheme.

On 24 June 2014 the Committee had delegated to the group Director of Resources, the Director of Human Resources and Organisational Development, and the Council's Monitoring Officer, acting jointly, the setting of the discretion decisions and Policy Statement. Following the setting of the discretion decisions and Policy Statement, the final discretions and Policy Statement had been brought back to Committee for information.

As a result of the Local Government Pension Scheme (Amendment) Regulations 2015/755 introduced in 2015, and changes to the Oracle Payroll system, certain Employer discretions had been reviewed, and the Policy Statement updated accordingly.

The Committee expressed concern with regard to the discretions under the Local Government (early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006, specifically number 6 (Award of lump sum compensation). The Regulations allow the award of lump sum compensation payments of up to 104 weeks pay within six months of the termination date and where no additional benefits had been awarded under the LGPS. The Discretion Application stated that 'The Council does not apply this discretion.'

The concern was that this decision fettered the Council's powers, and therefore was not legal. The Committee have asked officers to refer the matter back to legal services to review this discretion.

Subject to the above the Committee have noted the revised Employing Authority Discretions and Administration Authority Discretions – and the Statement of Policy.

5 BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2015/16

The Committee received the draft Business Plan/Annual Report on the work of the Pensions Committee 2015/16.

The Committee raised a couple of points regarding the report and officers had agreed to amend the report accordingly.

The Committee agreed to adopt the Business Plan/Annual Report 2015/16 and submit the report to Council.

6 ANY OTHER URGENT BUSINESS

Officers advised the Committee that Pension Funds had to inform the Government of the Council's proposals and timetable for transitioning assets over to the pooled scheme. The Collective Investment Vehicle would be submitting a collective response on behalf of its members, but the opportunity was there if individual funds wished to make their own submissions.

The draft template being used for the collective response was distributed to members of the Committee via email prior to the meeting.

A copy of the completed collective response would be provided to all members of the Committee.

The Committee have decided they do not wish to submit a separate response.

7 **EXCLUSION OF THE PUBLIC**

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

Chairman

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 20 SEPTEMBER 2016

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 2016**
CMT Lead:	**Andrew Blake Herbert**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Accountant*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.
Financial summary:	This report comments upon the performance of the Fund for the period ended 30 June 2016

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

Havering will be clean and its environment will be cared for	[]
People will be safe, in their homes and in the community	[]
Residents will be proud to live in Havering	[x]

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 30 June 2016. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the **quarter** to 30 June 2016 was **4.5%.** This matches the tactical benchmark and represents an under performance of -7**.0%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 30 June 2016 was **5.6%.** This represents under performance of **-2.4%** against the tactical combined benchmark and under performance of **-17.1%** against the annual strategic benchmark. The annual strategic benchmark is a measure of the fund's performance against a target based upon gilts + 1.8% (the rate which is used in the valuation of the funds liabilities). The implications of this shortfall are discussed further in paragraphs 1.2 and 1.3 below.

It is now possible to measure the individual managers' annual return for the new tactical combined benchmark since they became active on the 14^{th} February 2005. These results are shown later in the report.

RECOMMENDATIONS

That the Committee:

1) Considers Hymans performance monitoring report and presentation (Appendix A).
2) Receive a presentation from the Funds Bonds Manager (Royal London) and from the Fund's Multi-Asset Manager (Ruffer).
3) Notes the summary of the performance of the Pension Fund within this report.
4) Considers the quarterly reports provided by each investment manager.
5) Considers and notes any Corporate Governance issues arising from voting as detailed by each manager.
6) Considers any points arising from officer monitoring meetings (section 4 refers).
7) Notes the analysis of the cash balances (paragraphs 2.2 and 2.3 refers).

REPORT DETAIL

1. Background

1.1 The Fund undertook a full review of the Statement of Investment Principles (SIP) during 2012/13 and following the appointments of the Multi Asset Managers this almost completes the fund's restructuring. The Fund is still considering options for an investment in Local Infrastructure.

1.2 A strategic benchmark has been adopted for the overall Fund of Gilts + 1.8% (net of fees) 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.

This current shortfall is driven by the historically low level of interest rates which drive up the value of gilts (and consequently the level of the fund liabilities). Whether interest rates will remain at those levels for the longer term and the implications for the Fund's Investment strategy is a matter which will need to be considered at the time of the next actuarial review.

1.3 Our Investment Advisors have stated that there are things that could have been done to protect the fund against falling interest rates (e.g. hedging) but they do not believe that this action would have been appropriate. The Fund is already partially protected through its investments with Royal London and given the long term nature of the fund they believe that the fund objective of pursuing a stable investment return remains appropriate. They also note that although the value placed on the liabilities has risen as a result of falling yields, inflation and expectations of future inflation has fallen meaning that the actual benefit cash flows expected to be paid from the fund will be lower.

1.4 Individual manager performance and asset allocation will determine the out performance against the strategic 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.

1.5 The following table reflects the asset allocation split :

Asset Class	Target allocation	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	12.5%	Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	6.25%	State Street Global Asset	Pooled	Passive	FTSE All World Equity Index
	6.25%	State Street Global Asset	Pooled	Passive	FTSE RAFI All World 3000 Index
Multi Asset Strategy	15%	Baillie Gifford (Diversified Growth Fund)	Pooled	Active	UK Base Rate plus 3.5%
	20%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5%
Absolute Return	15%	Ruffer	Segregated	Active	LIBOR+
Property	5%	UBS	Pooled	Active	IPD All balanced (property) Fund's median +
Gilt/Investment	17%	Royal London	Segregated	Active	• 50% iBoxx £

Asset Class	Target allocation	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
Bonds					non- Gilt over 10 years • 16.7% FTSE Actuaries UK gilt over 15 years • 33.3% FTSE Actuaries Index-linked over 5 years. Plus 1.25%*
Infrastructure	3%	State Street Global Assets –Sterling liquidity Fund Cash is invested pending identification of a local infrastructure project.			

*0.75% prior to 1 November 2015

1.6 UBS, SSgA, GMO and Baillie Gifford manage the assets on a pooled basis. Royal London and Ruffer manage the assets on a segregated basis. Performance is monitored by reference to the benchmark and out performance target. Each manager's individual performance is shown in this report with a summary of any key information relevant to their performance.

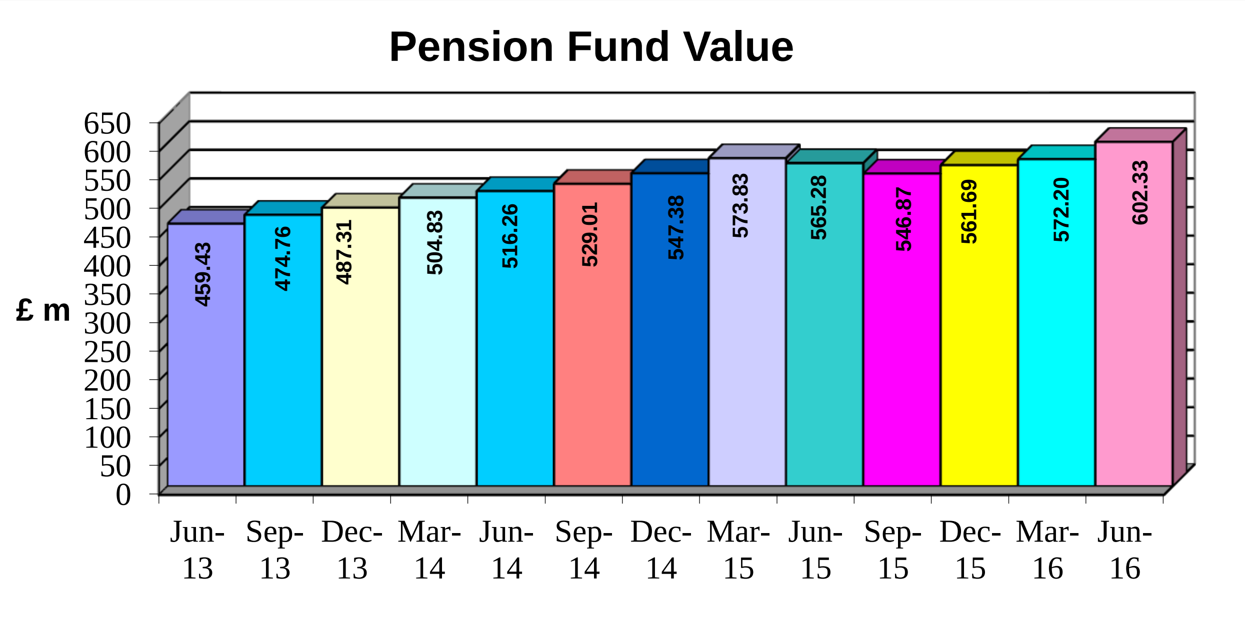
1.7 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).

1.8 Existing Managers are invited to present at the Pensions Committee Meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure are the pooled Managers (SSgA, UBS, Baillie Gifford and GMO) and Ruffer who will attend two meetings per year, one with Officers and one with the Pensions Committee. However if there are any specific matters of concern to the Committee relating to the Managers performance, arrangements will be made for additional presentations.

1.9 Hyman's performance monitoring report is attached at **Appendix A.**

2. Fund Size

2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 30 June 16 was **£602.33m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes accrued income. This compares with a fund value of £572.20m at the 31 March 16; an **increase** of **£30.13m**. The movement in the fund value is attributable to an increase in assets of £26.23m and an increase in cash of £3.90m. The internally managed cash level stands at **£15.55m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£15.55m** follows:

CASH ANALYSIS	**2014/15 31 Mar 15**	**2015/16 31 Mar 16 Updated**	**2016/17 30 Jun 16**
	£000's	£000's	£000's
Balance B/F	**-5661**	**-7599**	**-12924**
Benefits Paid	33568	35048	8831
Management costs	1600	1754	192
Net Transfer Values	-135	518	138
Employee/Employer Contributions	-35306	-42884	-13559
Cash from/to Managers/Other Adj.	-1618	306	1796
Internal Interest	-47	-67	-22
Movement in Year	**-1938**	**-5325**	**-2624**
Balance C/F	**-7599**	**-12924**	**-15548**

2.3 Members agreed the updated cash management policy at its meeting on the 15 December 2015. The policy sets out that should the cash level fall below the de-minimus amount of £3m this should be topped up to £6m. This policy includes drawing down income from the bond and property manager when required.

2.4 The cash management policy also incorporates a threshold for the maximum amount of cash that the fund should hold and introduced a discretion that allows the Chief Executive to exceed the threshold to meet unforeseeable volatile unpredictable payments.

3. Performance Figures against Benchmarks

3.1 The overall net performance of the Fund against the new **Combined Tactical Benchmark** (the combination of each of the individual manager benchmarks) follows:

	Quarter to 30.06.16	12 Months to 30.06.16	3 Years to 30.06.16	5 years to 30.06.16
Fund	4.5%	5.6%	7.8%	8.0%
Benchmark	4.4%	8.1%	7.8%	7.6%
*Difference in return	0.0%	-2.4%	0.0%	0.3%

Source: WM Company

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

3.2 The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts over 15 years + 1.8% Net of fees) is shown below:

	Quarter to 30.06.16	12 Months to 30.06.16	3 Years to 30.06.16	5 years to 30.06.16
Fund	4.5%	5.6%	7.8%	8.0%
Benchmark	12.4%	27.4%	18.0%	16.2%
*Difference in return	-7.0%	-17.1%	-8.6%	-7.1%

Source: WM Company

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

3.3 The following tables compare each manager's performance against their **specific (tactical) benchmark** and their **performance target** (benchmark plus the agreed mandated out performance target) for the current quarter and the last 12 months.

QUARTERLY PERFORMANCE (AS AT 30 JUNE 2016)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	8.77	9.22	**-0.45**	9.41	**-0.64**
UBS	0.81	0.12	**0.69**	n/a	**n/a**
London CIV/Ruffer	3.70	0.10	**3.60**	n/a	**n/a**
SSgA Global Equity	8.73	8.75	**-0.02**	n/a	**n/a**
SSgA Fundamental Index	8.57	8.55	**0.02**	n/a	**n/a**
SSgA Sterling Liquidity Fund	0.14	0.09	**0.05**	n/a	**n/a**
London CIV/Baillie Gifford (Global Alpha Fund)	6.90	8.80	**-1.90**	9.43	**-2.53**
London CIV/Baillie Gifford (DGF)	0.90	1.00	**-0.10**	n/a	**n/a**
GMO	0.34	0.61	**-0.27**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

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

ANNUAL PERFORMANCE (LAST 12 MONTHS)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	15.67	16.56	**-0.89**	17.31	**-1.64**
UBS	9.01	7.18	**1.83**	n/a	**n/a**
London CIV/Ruffer	0.40	0.50	**-0.90**	n/a	**n/a**
SSgA Global Equity	13.91	13.91	**0.00**	n/a	**n/a**
SSgA Sterling Liquidity Fund	0.54	0.36	**0.18**	n/a	**n/a**
London CIV/Baillie Gifford (Global Alpha Fund)	11.70	13.90	**-1.90**	16.40	**-4.70**
London CIV/Baillie Gifford (DGF)	0.40	4.00	**-3.50**	n/a	**n/a**
GMO	-5.05	0.42	**-5.47**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- SSgA fundamental Index not invested for entire period

4. Fund Manager Reports

4.1. UK Investment Grade Bonds (Bonds Gilts, UK Corporates, UK Index Linked, UK Other) – (Royal London Asset Management)

a) Representatives from Royal London are due to make a presentation at this Committee therefore a brief overview of their performance as at 30 June 2016 follows.

b) The value of the fund as at 30 June 16 increased by £10.66m on the previous quarter.

c) The fund achieved a net return of 8.77% during the quarter and under-performed the benchmark for the quarter by -0.45%. Royal London under-performed the benchmark over the one year period by 0.89%. Since inception they outperformed the benchmark by 0.53%.

d) With effect from the 1 November 2015 the return objective was increased from 0.75% to 1.25% and following a change to the mandate's performance target and permissible investments, an exposure totalling 8.2% of Fund assets was established in the Royal London Sterling Extra Yield Bond Fund.

4.2. Property (UBS)

a) In accordance with agreed procedures officers met with representatives from Royal London on the 17 August 2016 at which a review of their performance as at 30 June 16 was discussed.

b) The value of the fund as at 30th June 2016 increased by £0.2m since the previous quarter.

c) UBS delivered a return of 0.8% over the quarter, outperforming its benchmark by 0.7%. The Fund is ahead of the benchmark over the year by 1.8% and 1.7% over 3 years. But is behind over the five year period to 30thJune 2016 by -1.9%.

d) The number of properties in the fund currently stands at 31 with a void rate of 5.87%. Student accommodation in Newcastle has achieved completion and is now being let, thereby further reducing voids in the fund.

e) As at the 30th June 2016 there is 9.6% leverage (maximum of 10% permitted), but reduced to 5.5% as at 31st July 2016. The majority of this was bridging debt which will be reduced once the sale of UBS-CLOVA is completed at the end of August 2016. They have an attractive debt agreement with a strong strategy in place to repay the debt.

f) UBS were pleased to announce the new appointment of a Director of UK Business Development, Global Real Estate, Asher Garnett in April 2016. He is responsible for growing UBS's client and product franchise and for ensuring its real estate capabilities are marketed across the UK. Asher joins UBS from global investment management firm, Blackrock (2010-2016) where he worked in real estate and alternative investments. Asher was introduced to officers at the meeting.

g) There were no sales completed in the last quarter.

h) The Fund has purchased three new properties this quarter, a prime office building on a garden square in London W.1., which was comprehensively refurbished in 2014. This is a core holding to the fund. A purpose built student accommodation in Belfast providing 156 studios within 5 minute walk from Queens University campus, this was a genuine off market deal which increase weighting to alternatives. Lastly a multi let industrial estate in Swanley, built in the 1970's and extensively refurbished in 2009/10. This property is based on a junction of the M25 and the M20 serving both south east London and the greater south east region. This was another core holding for the fund.

i) Performance was mainly driven by the Funds strategically overweight position in Central London and the industrial sector. UBS's current strategy is to continue to retain its overweight position in retail warehousing, industrial and London offices and to increase its exposure to alternative real estate. In this quarter they have again increased their weighting in alternatives by purchasing the student accommodation in Belfast, which provides good sustainable rental income, with very low voids and relatively low risk.

j) We asked if there has been any activity that was planned during the year which has not progressed as expected, they said that planning permission for the redevelopment of the Leisure World, Southampton property (a fully let prime 10 acre waterfront site), has been delayed, the planning meeting is now scheduled for October this year. All other projects are on track.

k) UBS were asked the reason why the fund had taken on some level of debt and their arrangements for paying this debt down. They said that they used the debt to purchase the Student accommodation in Belfast, they said that they negotiated a very attractive debt agreement, and plan to repay most of this debt when the sale of UBS-CLOVA completes at the end of August 2016. This leverage was always only intended as a short term bridging debt. We asked if they considered continuing the use of debt in the fund given the current low interest rates, they said that they would consider this but as they already negotiate very attractive debt agreements the low interest rates would not influence their current strategy.

l) UBS's redemption notices served on the Fund remained under 1% at the end of June 2016; we asked if the fund has seen any recent changes in redemption levels since then and if there have been any liquidity issues within the fund. They said that the redemption levels have remained the same at around £6 million, but they said that they have new investors joining the fund to the value of 20mil which more than offsets the redemptions. The new money they are raising will also offset some of their remaining debt. They had no liquidity issues.

m) UBS said that they do not envisage any impact on the funds strategy following the outcome of the EU referendum.

n) No whistle blowing issues or governance was reported.

4.3. Multi Asset Manager (Ruffer)

a) Representatives from Ruffer are due to make a presentation at this Committee therefore a brief overview of their performance as at 30 June 2016 follows.

b) The value of the fund as at 30 June 16 increased by £2.66m on the previous quarter.

c) Ruffer delivered a return of 3.70% (net of fees) over the quarter, outperforming the benchmark by 3.60%. Over the last 12 months Ruffer delivered a return of -0.40% underperforming the benchmark by -0.90%.

d) £70.7m of assets were transferred to the London CIV on the 21 June 2016. The residual assets of £1.3m were transferred on the 31 August 2016.

e) The London CIV will oversee the monitoring and review of the performance of this mandate. However Ruffer has stated that they will continue with the existing monitoring arrangements and meet with the Committee to report on its own performance.

4.4. Passive Equities Manager (SSgA)

a) In accordance with agreed procedures officers will only meet with representatives from SSgA once in the year with the other meeting to be held with members. SSgA last met with the members of the Pension Committee on the 15 December 2015 at which they covered the period ending up to 31 September 2015. Officers met with representatives from SSgA on the 11 May 2016 at which a review of their performance as at 31 March 16 was discussed.

b) Value of the fund has increased by £6.2m since the last quarter.

c) The SSgA mandate is now split into three components, Sterling Liquidity sub fund, SSgA All World Equity Index sub fund, and the Fundamental Index Global Equity sub fund.

d) SSGA has performed in line with the benchmark over the latest quarter, as anticipated from an index-tracking mandate

4.5. Global Equities Manager (Baillie Gifford)

a) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 4 February 2016 at which a review of their performance as at 31 December 15 was discussed. Representatives from the London CIV have been invited to present to the Pensions Committee meeting on the 13 December 2016 to provide a performance update on the Baillie Gifford (Global Equities) mandate.

b) The value of the fund increased by £5.8m over the last quarter.

c) The Global Alpha Fund delivered a return of 6.9% (net of fees) over the quarter, underperforming the benchmark by -1.9%. Over the last 12 months Baillie Gifford delivered a return of 11.7% underperforming the benchmark by -1.9%.

d) This mandate transferred to the London CIV on the 11 April 2016.

e) The London CIV will oversee the monitoring and review of the performance of this mandate and representatives from the London CIV have been invited to present to the Pensions Committee meeting on the 13 December 2016 to provide the review on the Baillie Gifford (Global Alpha Equities) mandate.

4.6. Multi Asset Manager (Baillie Gifford Diversified Growth Fund)

a) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 4 February 2016 at which a review of their performance as at 31 December 15 was discussed.

b) The value of the fund increased by £0.3m over the last quarter.

c) The Diversified Growth Fund delivered a return of 0.9% (net of fees) over the quarter, underperforming the benchmark by -0.1%. Over the last 12 months the Diversified Growth Fund delivered a return of 0.4% underperforming the benchmark by -3.5%.

d) This mandate was transferred to the London CIV on the 15 February 2016.

e) The London CIV will oversee the monitoring and review of the performance of this mandate and representatives from the London CIV have been invited to present to the Pensions Committee meeting on the 13 December 2016 to provide the review on the Baillie Gifford (Diversified Growth Fund) mandate

4.7. Multi Asset Manager (GMO – Global Real Return (UCITS) Fund)

a) In accordance with agreed procedures officers will only meet with representatives from GMO once in the year with the other meeting to be held with members. Officers met with representatives from GMO on the 5 November 2015, at which a review of their performance as at 30 September 15 was discussed. GMO last met with the members of the Pension Committee on the 16 June 2016 at which they covered the period ending up to 31 March 2016.

b) The value of the fund increased by £0.3m over the last quarter.

c) The fund achieved a net return of 0.03% during the quarter and underperformed the benchmark for the quarter by -0.02%. Over the last 12 months GMO delivered a return of -5.05% underperforming the benchmark by -5.5%.

d) The GMO investment is in a dynamic multi-asset fund, the GMO Global Real Returns UCITS Fund (GRRUF) and targets a return of CPI+5% (net of fees) over a full 7 year cycle. The Fund invests globally in equities, debt, money market instruments, currencies, instruments relating to commodities indices, REITS and related derivatives.

e) GMO philosophy is to buy undervalued assets with a long term view to assets returning to fair value.

f) The asset allocation within the portfolio for the quarter was 45% Equities, 13% Alternative strategies, 6.9% Fixed Income and 34.9% Cash/Cash Plus.

4.8. WM Performance Measurers

a) Officers met with a WM representative on the 17 August 2016 who gave their annual presentation on the returns of the WM universe (other LGPS funds) and how the Havering Fund performed compared to the universe. A summary of the major points for the 2015/16 performance are as follows:

- WM universe is made up of 88 funds with a combined asset value of £207billion.
- The benchmark for the universe was 0.2%.

- Havering Pension Fund return was -1.0% and underperformed the universe benchmark by -1.2%.

- Havering Pension Fund achieved an overall ranking for the year of 73rd.

b) The Havering Fund is structured differently from the average fund as shown in the table below :

Asset Allocation	**Universe**	**Havering**
Equities	60	27
Bonds	16	21
Multi Asset	3	30
Cash	3	3
Alternatives	9	13
Property	9	6

c) The performance can be attributed to the effects of asset allocation, with Multi-asset strategies having a disappointing year and were the main contributor to the funds underperformance, over the medium term the funds absolute returns remain strong and are in excess of the strategic benchmark.

	2015/16	**2014/15**	**3 Yrs**	**5 Yrs**	**10 Yrs**
Fund Return	-1.0	13.3	6.3	7.5	4.9
Benchmark (WM Universe)	**0.2**	**13.2**	**6.4**	**7.1**	**5.6**
Relative Return	-1.2	0.1	-0.1	0.4	-0.7
Ranking	73	51	56	33	73

d) WM also produced charts that showed:

- the relationship between the absolute level of return achieved and the risk taken in obtaining that return for the main assets classes. Chart showed that the Havering Pension Fund had lower risk than other funds in the WM universe and relative risk had been rewarded,

- The long term performance of the fund’s annual return against the retail price index. Over the 3, 5 10 & 20 year periods the fund outperformed inflation. Over the 20 year period the fund’s capital growth outperformed inflation by 4%p.a.

e) WM summarised 2015/16 as a difficult year in general as 'riskier' assets struggled in a volatile environment. The weakness of Sterling protected UK investors from much lower returns on non-domestic investments. The fund sits within the top third of the universe over 5 years. However, this has fallen back over the shorter term period.

f) WM has made the decision to discontinue providing performance measurement services to third party clients in the UK, effective from March 2016. The production of all universe analysis including the Local authority peer group analysis will also be discontinued. They will still continue to provide their core performance measurement to State Street clients who subscribe to their custody and/or accounting services.

g) The Havering Pension Fund subscribes to both the custody and accounting services so performance measurement will continue for our fund.

The London CIV is leading on the issue of obtaining alternative service providers to produce the universe data.

5. Corporate Governance Issues

The Committee, previously, agreed that it would:

1. Receive quarterly information from each relevant Investment Manager, detailing the voting history of the Investment Managers on contentious issues. This information is included in the Managers' Quarterly Reports, which will be distributed to members electronically.

2. Receive quarterly information from the Investment Managers, detailing new Investments made.

   - Points 1 and 2 are contained in the Managers' reports.

3. Voting – Where the fund does not hold a pooled equity holding, Members should select a sample of the votes cast from the voting list supplied by the managers (currently only Ruffer) which is included within the quarterly report and question the Fund Managers regarding how Corporate Governance issues were considered in arriving at these decisions.

This report is being presented in order that:

- The general position of the Fund is considered plus other matters including any general issues as advised by Hymans.

- Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation. The managers attending the meeting will be from:

  Royal London (Bonds Manager) and Ruffer (Multi asset Manager).

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

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

Legal implications and risks:

None arising directly

Human Resources implications and risks:

There are no immediate HR implications. However longer term, shortfalls may need to be addressed depending upon performance of the fund.

Equalities implications and risks:

None arising that directly impacts on residents or staff.

BACKGROUND PAPERS

Royal London Quarterly report to 30 June 2016
UBS Quarterly report to 30 June 2016
Ruffer Quarterly report 30 June 2016
State Street Global Assets report to 30 June 2016
Baillie Gifford Quarterly Reports 30 June 2016
GMO Quarterly Report 30 June 2016
The WM Company Performance Review Report to 30 June 2016

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 20 SEPTEMBER 2016

Subject Heading:	**RESPONSIBLE INVESTMENT: MANAGER REVIEW**
CMT Lead:	**Andrew Blake Herbert**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Accountant*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Responsible investment issues as set out in the Statement of investment Principles
Financial summary:	No financial implications

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

Havering will be clean and its environment will be cared for	[]
People will be safe, in their homes and in the community	[]
Residents will be proud to live in Havering	[x]

SUMMARY

The attached report, produced by the Fund's Investment Advisor (Hymans), presents a summary on the responsible investment activities, of the Fund's investment managers in support of the Committee's ongoing monitoring requirement as set out in the Statement of Investment Principles (SIP).

RECOMMENDATIONS

That the committee:

Note the summary review of fund manager voting and engagement activity in the attached Appendix.

.

REPORT DETAIL

1. Background

1. The attached report, produced by the Fund's Investment Advisor (Hymans), presents a summary on the responsible investment activities, of the Fund's investment managers in support of the Committee's ongoing monitoring requirement as set out in the Statement of Investment Principles (SIP).

2. The Fund's current policy with regard to the responsible investments are as follows:

   a) **Social, Environmental and Ethical Considerations**
   The Pensions Committee has carefully considered socially responsible investment in the context of its legal and fiduciary duties and obligations. In view of the objectives set out in this statement, the Pensions Committee takes the view that, non-financial factors should not drive the investment process to the detriment of the financial return of the fund.

   Whilst at this time the Pensions Committee has determined not to place any restrictions on Investment Managers for ethical, social and environmental reasons the Pensions Committee considers it appropriate for the Investment Managers to take such factors into account when considering particular investments.

   The Pensions Committee also believes that it does not have the relevant expertise to make frequent assessment of the financial impact of companies' activities. To that extent, the Pensions Committee has a policy of non-interference and the Investment Managers have full discretion over day to day decision making

3. As the engagement and voting activity is largely delegated to the Fund's investment managers Hymans were asked to carry out a review of the activity undertaken by the managers. The review focused on the process and the periods covered were based using the latest published information

IMPLICATIONS AND RISKS

Financial implications and risks:

Incorporated within the background of the report but would highlight the Pensions Committee view that, non-financial factors should not drive the investment process to the detriment of the financial return of the Fund and Investment Managers have been given full discretion over day to day decision making.

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

There are no equality implications or risks as a result of this report.

BACKGROUND PAPERS

Background Papers List

As per the attached Appendix

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Responsible investment: Manager review

This paper is addressed to the Pension Committee ("the Committee") of the London Borough of Havering Pension Fund ("the Fund"). The purpose of this paper is to provide a summary of the responsible investment activities, focusing primarily on reported voting and engagement activity, of the Fund's investment managers in support of the Committee's ongoing monitoring requirement.

The paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation or without our prior written consent. We accept no liability where the report is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Background

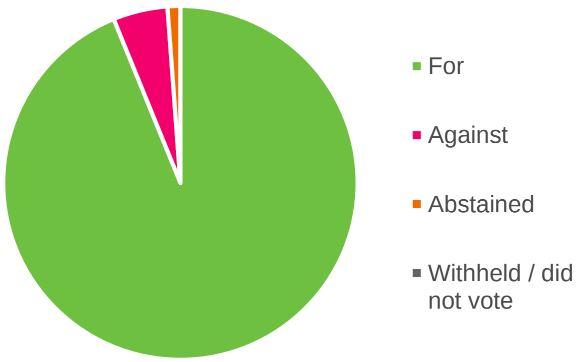
The Fund's current policy with regard to the responsible investment issues is set out in the Statement of Investment Principles and reproduced as an Appendix to this note. Through this policy, engagement and voting activity is largely delegated to the Fund's investment managers. This approach is consistent with an investment strategy that is predominantly implemented through investment in pooled funds.

Shareholder voting rights are typically only available to the Fund's investment managers that have equity holdings: this includes the Fund's investments with Baillie Gifford and SSGA together with the multi-asset mandates managed by Ruffer, GMO and Baillie Gifford, all of which incorporate some level of equity investment.

For completeness, we have also included comment on the Fund's bond investment managed by RLAM and the investment in the UBS Triton Property Fund, although different considerations are relevant in each case.

Baillie Gifford: Global Alpha Fund

Baillie Gifford is a long-term investor with a process that is focused on understanding long-term company fundamentals. The firm monitors all companies in which they invest, votes at company meetings on a global basis and engage with companies where they have significant holdings, have experienced poor ESG practices, have a lack of disclosure or which are considered to be high-impact sectors.



Baillie Gifford incorporates details of its voting and engagement activity within its quarterly reporting. Considering the global alpha fund specifically, during Q2 2016, the firm voted on 1,025 separate resolutions of which 51 (5%) were votes against the resolution. Examples of votes cast against management resolutions are as follows:

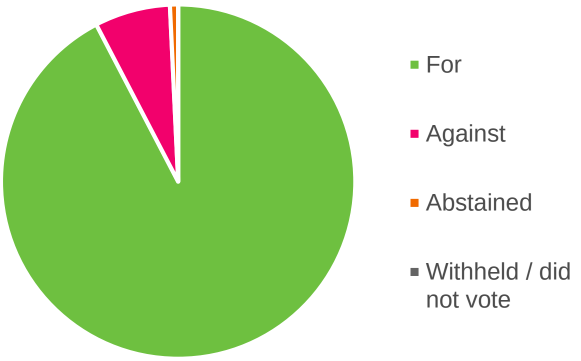
- **American Express**: Voted against resolutions relating to the executive compensation policy due to granting of one-off equity awards during the year:
- **Deutsche Boerse**: Baillie Gifford opposed the remuneration report, due to a lack of alignment between pay and performance in relation to annual bonus and long term incentive plans;
- **Various (Qiagen, Sands China, Yandex)**: Voted against proposals to issue equity due to potential dilution levels.

Baillie Gifford also engaged with a number of companies in relation to Corporate Governance, Environmental/Social and AGM or EGM proposals during the quarter.

During the quarter, the Fund's investment was transferred to the London CIV. Accordingly, the voting and engagement policy relating to this investment will in future be determined by the CIV.

Baillie Gifford: Diversified Growth Fund

Investment in the Baillie Gifford DGF was transferred to the London CIV during Q1 2016. Accordingly, the voting and engagement policy relating to this investment will in future be determined by the CIV. The DGF includes both a number of direct holdings together with investments in a number of Baillie Gifford pooled funds. Reporting reflects the direct investments made within the DGF rather than on a look through basis.



During Q2 2016, Baillie Gifford voted on 536 separate resolutions of which 37 (7%) were votes against the resolution. Examples of votes cast against management resolutions are as follows:

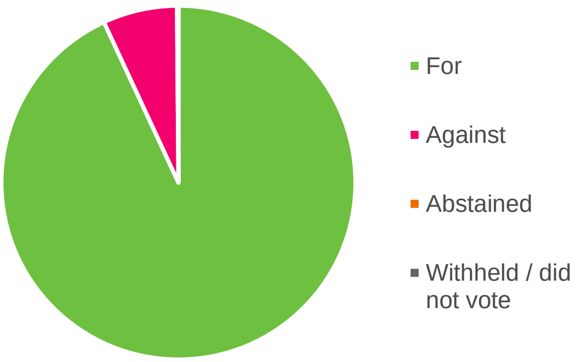
- **Various (including Alstria Office, Axiare Patrimonio Socimi REIT, Icade and Vonovia SE)**: Voted against proposals to issue equity due to potential dilution levels.
- **Axiare Patrimonio Socimi REIT**: Baillie Gifford voted against two resolutions relating to remuneration due to a lack of disclosure;
- **Gecina**: Voted against resolutions relating to remuneration due to a lack of alignment between pay and performance.

State Street Global Advisors

The Fund has two global equity mandates with SSGA. The investments are in index tracking funds and, as such, the manager holds positions in a far greater number of investee companies than any of the Fund's other managers and has significantly more votes to exercise.

Although the Fund invests across all regions, SSGA only incorporated detail of its UK corporate governance activity within its quarterly reporting.

During the quarter ending 30 June 2016, SSGA were eligible to vote on 5,612 resolutions of which they voted against on 381 (7%) of occasions.



SSGA voted against resolutions involving potential dilution of shareholder value, excessive increases in leveraging and remuneration-related proposals. Specific concerns which led to votes against included:

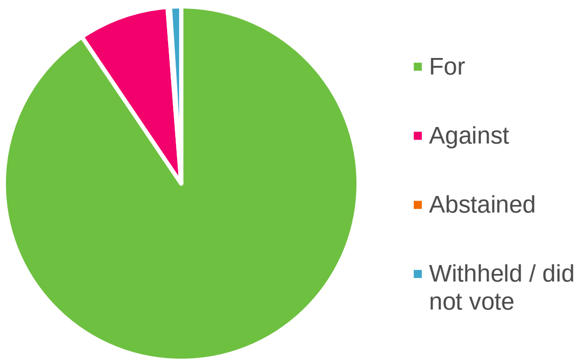
- Management proposals to issue contingent capital (Barclays, HSBC and Lloyds Banking Group);
- Proposal to increase borrowing powers (Centrica);
- Remuneration-related proposals, including a vote against BP's proposed remuneration policy

SSGA provides summary reporting on its voting and engagement activities on a global basis through its website.

GMO

GMO manage a multi-asset mandate for the Fund through investment in a pooled fund which is invested principally across equity and bond markets with the objective of delivering superior risk adjusted returns. GMO maintains a statement regarding the inclusion of ESG principles within its investment process, noting that ESG considerations are not an integral element of their philosophy or process. GMO do however note that certain measures of good governance and sustainable business correlate with their own evaluation of a company's "quality" and that ESG issues will be included where they are believed to have a material impact on potential risk or return.

GMO does vote on the equity investment that it manages within pooled funds and has engaged Institutional Shareholder Services (ISS) to act as its proxy voting agent. GMO does not, as a matter of practice, engage or intervene with investee companies.



GMO have provided details of their voting activity for the second quarter of 2016. During the quarter ending 30 June 2016, GMO was eligible to vote shares on 8,910 resolutions of which they voted against on 733 (8%) of occasions.

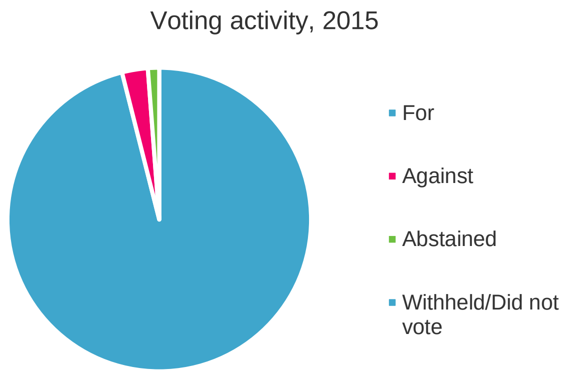
GMO voted against management proposals on 630 (7%) resolutions. The majority of these votes were in relation to Corporate Governance matters and Remuneration Policy.

Ruffer

Ruffer manage a multi-asset mandate for the Fund which is invested principally across equity and bond markets with the objective of delivering positive absolute returns. Through this mandate, the Fund has share ownership rights which Ruffer exercise through a process of monitoring and engagement to the extent that issues will impact the economic interest of their clients. Ruffer maintain a responsible investment policy detailing this process.

With specific regard to voting, Ruffer vote on resolutions where a materiality test is met; materiality being defined as clients having a material interest in the company or where the value of the holding is material to clients.

Ruffer can provide voting information on a quarterly basis, however, Q2 2016 reporting is not yet available due to issues identified with their third party provider and transfer of the holdings in the Absolute Return Fund into the CIV. Ruffer do however produce a summary annual report detailing their ESG activity. The most recent report has been provided for the year ending 31 December 2015.



During 2015, Ruffer voted on 1165 resolutions of which they voted against or abstained on 46 (3.9%) of occasions. However, Ruffer note that they voted against management on 52 (4.5%) of occasions and for shareholder proposals on a further 18 (1.6%) of occasions.

Ruffer also notes that over the course of 2015, their engagement activity addressed a number of issues including board structure, remuneration, capital structure, M&A activity and social & environmental issues. The firm also became a signatory to CDP during the year and to the UN Principles for Responsible Investment in January 2016.

Royal London Asset Management

RLAM manage a bond mandate, investing across government bonds and corporate credit issues. As such there are no voting rights attached to these investments.

RLAM has however developed a responsible investment policy that includes reference to bond investments, noting that ESG issues have historically been overlooked by markets. RLAM note that their aim is to deliver ESG analysis and a programme of engagement that is useful to pricing risk in fixed interest investments, particularly as issues relate to covenant strength.

RLAM include a generic comment on their policies within their quarterly reporting.

UBS Triton Property Fund

The Fund invests in the UBS Triton Property Fund. This vehicle invests directly in real estate and accordingly, there are no attaching voting issues. UBS maintain a global responsible investment policy covering investment in all asset classes, with issues specific to real estate being reflected in a separate Responsible Property Investment (RPI) policy. Within its RPI policy, UBS has quantitative goals to reduce energy consumption by 10%; reduce GHG emissions by 20% and increase recycling by 50% over a five-year period from 2015.

UBS have included a report on sustainability within their annual report (year ending 31 December 2015) incorporating details on key environmental figures relating to energy, water and waste usage within properties held by the Fund.

	2014	2015
Total energy consumed (kWh)	9,626,026	8,197,425
Total waste produced (tonnes)	361	399
Total water usage (m3)	41,962	37,692
Number of properties	28	29

The Triton Property Fund also participates in the Global Real Estate Sustainability benchmark (GRESB) survey. This is an annual assessment of the sustainability performance of both property companies and funds, including indicators such as energy use, as well as broader sustainability topics such as engagement with tenants and suppliers. UBS Triton ranked third (2014: first) out of 19 balanced funds within the AREF/IPD UK Quarterly Property Fund Index, retaining “Green Star” status.

Prepared by:-

Callum Stewart, Investment Analyst
Simon Jones, Senior Investment Consultant

September 2016

For and on behalf of Hymans Robertson LLP

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, investments 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 overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Appendix: Current fund policy

Social, Environmental and Ethical Considerations

The Pensions Committee has carefully considered socially responsible investment in the context of its legal and fiduciary duties and obligations. In view of the objectives set out in this statement, the Pensions Committee takes the view that, non-financial factors should not drive the investment process to the detriment of the financial return of the Fund.

Whilst at this time the Pensions Committee has determined not to place any restrictions on Investment Managers for ethical, social and environmental reasons the Pensions Committee considers it appropriate for the Investment Managers to take such factors into account when considering particular investments.

The Pensions Committee also believes that it does not have the relevant expertise to make frequent assessment of the financial impact of companies' activities. To that extent, the Pensions Committee has a policy of non-interference and the Investment Managers have full discretion over day to day decision making.

Corporate Governance Policy

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

In making investment decisions the Council will, through its Pension Fund Investment Managers, have regard to the economic interests of the Pension Fund as paramount and as such:

1 Will vote at all general meetings of UK companies in which the Fund is directly invested.

2 Will vote in favour of proposals that enhance shareholder value.

3 Will enter into timely discussions with management on issues which may damage shareholders' rights or economic interests and if necessary to vote against the proposal.

4 Will take a view on the appropriateness of the structure of the boards of companies in which the Fund invests.

5 Will take a view on the appropriateness of the remuneration scheme in place for the directors of the company in which the Fund invests

Beyond this, the Council will allow its Investment Managers full freedom with the day to day decision making.

The Pensions Committee will, where appropriate,

6 Receive quarterly information from the Investment Manager, detailing the voting history of the Investment Manager on contentious issues.

7 Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.

8 Receive quarterly information from the Investment Manager, detailing new investments made.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 20 SEPTEMBER 2016

Subject Heading:	**PENSION FUND ACCOUNTS 2015/16**
CMT Lead:	**Andrew Blake Herbert**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Accountant*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Pension Fund accounts to be noted by the Pensions Committee prior to agreement by the Audit committee
Financial summary:	This report comments on the Pension Fund Accounts for the year ended 31 March 2016

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

Havering will be clean and its environment will be cared for []
People will be safe, in their homes and in the community []
Residents will be proud to live in Havering [x]

SUMMARY

This report provides Members with an extract of the Council's Statement of Accounts for the year to 31st March 2016 showing the unaudited accounts of the Havering Pension Fund as at that date.

RECOMMENDATIONS

That the Committee consider and note the Havering Pension Fund unaudited Accounts as at 31st March 2016 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 Council's Statement of Accounts for 2015/16 which are currently being audited will be presented to the Audit Committee for agreement on the 22nd September 2016. 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.

1.2. At the time of writing this report the Pension Fund Accounts are still subject to final clearance by our auditor's PricewaterhouseCoopers (PwC) as part of the overall audit of the Council's accounts. Once our auditors have cleared the accounts any changes will be distributed as a late item. Latest version is shown as attached in **Appendix A.**

1.3. Key items to note from the statement are:

- The Net Assets of the Fund have decreased to **£573m** for 2015/16 from £575m in 2014/15, a net decrease of £2m.

- The net decrease of £2m is compiled of a change in the market value of assets of (£8m), investment income of £5m and net additions of cash of £5m and offset by management expenses of (£4m).

- The overall return on the Fund's investments was **-1.2%** (net of fees) (2014/15 13.2%). This represented an under performance of **-2.8%** against the tactical benchmark (2014/15 outperformance of 1.7%) and an under performance of **-7.7%** against the strategic benchmark (2014/15 underperformance of -12.9%).

- A copy of the audited Pension Fund Accounts and the auditors' opinion will be included in the 2015/16 Pension Fund Annual Report. The statutory publication date for the 2015/16 Pension Fund Annual Report is 1 December 2016.

1.4. The 2015/16 Pension Fund Annual report is being presented on the Pensions Committee elsewhere on this agenda.

1.5. 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. At the time of writing this report the draft ISA 260 has yet to be issued by PwC. A verbal update will be provided at the meeting or the ISA260 will be distributed as a late item.

IMPLICATIONS AND RISKS

Financial implications and risks:

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

Regulation 11 of the Accounts and Audit regulations require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30th September 2016.

Legal implications and risks:

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. However longer term, shortfalls may need to be addressed depending upon performance of the fund.

Equalities implications and risks:

None arising that directly impacts on residents or staff.

BACKGROUND PAPERS

Working papers held within the Corporate Finance section.
Draft statement of Accounts 2015/16

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PENSION FUND

Pension Fund Account for the year ended 31March 2016

2014/15 £000		Notes	2015/16 £000
	Dealings with members, employers and others directly involved in the fund		
35,704	Contributions	7	41,065
1,573	Transfers in from other pension funds	8	1,390
37,277			42,455
(33,499)	Benefits	9	(34,973)
(1,506)	Payments to and on account of leavers	10	(1,982)
(35,005)			(36,955)
2,272			**5,500**
(3,334)	Management expenses	11	**(3,663)**
	Returns on investments		
6,651	Investment income	12	4,796
-	Taxes on Income	13	(25)
63,061	Profit and losses on disposal of investments and changes in the market value of investments	14a	(8,336)
69,712	**Net returns on investments**		**(3,565)**
68,650	**Net increase in the net assets available for benefits during the year**		**(1,728)**
506,019	Opening net assets of the Fund at start of year		574,669
574,669	**Closing net assets of the Fund at end of year**		**572,941**

Net Asset Statement as at 31 March

2014/15 £000		Notes	2015/16 £000
567,999	Investment Assets	14	562,102
(910)	Investment Liabilities	14	(1,387)
8,339	Current Assets	20	13,707
(759)	Current Liabilities	21	(1,481)
574,669	**Net assets of the Fund available to fund benefits at end of the year**		**572,941**

The financial statements summarise the transactions of the Fund and the net assets of the Fund. They do not take account of obligations to pay pensions and other benefits which fall due after the financial year end. 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

1 Description of the Fund

The Havering Pension Fund is part of the Local Government Pension Scheme 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 Deputy Chief Executive Communities and Resources.

The following description of the scheme is a summary only. For more details on the operation of the Pension Fund, reference should be made to the Havering Pension Fund Annual Report 2015/16 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

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 Local government Pension Scheme Regulations 2013 (as amended),
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

The Pension 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, police officers and firefighters are not included as they come within other national pension schemes.

The fund is overseen by the Local Pension Board and the London Borough of Havering Pensions Committee, which is a committee of the Havering Council.

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.

During 2015/16 three new employers joined the fund, two ceased and one employer transferred out.

There are 35 employer organisations with active members within the Havering Pension Fund including the Authority. The membership profile is detailed below.

31 March 2015		31 March 2016
35	**Number of employers with active members**	**35**
	Number of employees in scheme	
4,897	Havering	4,845
1,468	Scheduled bodies	1,570
119	Admitted bodies	111
6,484	**Total**	**6,526**
	Number of pensioners and dependants	
5,432	Havering	5,486
280	Scheduled bodies	320
67	Admitted bodies	78
5,779	**Total**	**5,884**
	Deferred pensioners	
4,465	Havering	4,796
700	Scheduled bodies	846
59	Admitted bodies	67
5,224	**Total**	**5,709**
17,487		**18,119**

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 2016. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2013. Current employer contribution rates range from 17.3% to 28.7% 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, summarised in the following table:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum is paid for each £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

From1 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 adjusted annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirements, disability pensions and death benefits. For more details please refer to the pension website www.yourpension.org.uk.

2 Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2015/16 financial year and its position at year end as at 31 March 2016. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting* in *the United Kingdom* 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

3 Summary of Significant Accounting Policies

Fund Account – revenue recognition

(a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

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.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises.

(b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10)

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 on an accruals basis in accordance with the terms of the transfer agreement.

(c) Investment Income

i) Interest Income

Interest income is recognised in the Fund as it accrues.

ii) Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as an investment asset.

iii) Distribution from Pooled Funds

Distributions from pooled funds are recognised at the date of issue.

iv) Property- Related Income

Property related income consists primarily of rental income and 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 unpaid are disclosed in the Net Assets Statement as current liabilities.

(e) Taxation

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

(f) Management Expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Authority discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs.*

Administrative Expenses

All administrative expenses are accounted for on an accruals basis. The majority of staff costs of the Pensions Administration team have been charged to the scheme. 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 oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight is charged 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.

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

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

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

For officers' time spent on investment management functions a proportion of the relevant officers' salary costs have also been charged to the Fund.

Net Assets Statement

(g) Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined as follows:

(i) Market-Quoted Investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

(ii) Fixed Interest Securities

Fixed interest securities are recorded at net market value based on their current yields.

(iii) Unquoted Investments

The fair value of investments for which market quotations are not readily available is determined as follows:

Investments in private equity funds are valued on the Fund's share of the net assets in the private equity fund.

Investments in pooled property are valued at the net asset value or a single price advised by the manager.

(iv) Pooled Investment Vehicles

Pooled investment vehicles are valued at the closing bid price if both the bid and offer prices are published; or if single priced, at the closing single price.

(h) 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.

(i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities.

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

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

(j) Cash and Cash Equivalents

Cash comprises cash in hand 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.

(k) Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

(l) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (note 19)

(m) Additional Voluntary Contributions

The Havering Pension Fund provides an additional voluntary contributions (AVC) scheme for it members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential and Standard Life as their AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors.

AVC's are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22)

4. Critical Judgements in Applying Accounting Policies

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates provided to the 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 and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

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 amounts reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net asset statement at 31 March 2016 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results differ from Assumptions	Approximate % Increase to liabilities	Approximate monetary amount £m)
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied	The effects on the 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:		
		• 0.5% decrease in the real discount rate could result in an increase of 10%	10%	97
		• 1 year increase in member life expectancy could result in an increase of 3%	3%	30
		• 0.5% increase in salary increase rate could result in an increase of 3%	3%	30
		• 0.5% increase in the pension increase rate could result in an increase of 7%	7%	66

6. Events after the Reporting Date

None

7. Contributions Receivable

By category

2014/15 £000		2015/16 £000
	Employees contributions	
	Normal:	
5,401	Havering	5,450
1,323	Scheduled Bodies	1,388
152	Admitted Bodies	127
	Additional contributions:	
53	Havering	28
9	Scheduled bodies	25
1	Admitted bodies	1
6,939	**Total Employees' Contribution**	**7,019**
	Employers contributions	
	Normal:	
12,470	Havering	12,681
5,127	Scheduled bodies	5,412
576	Admitted bodies	440
	Deficit funding:	
10,056	Havering	*15,117
	Augmentation	
288	Havering	326
248	Scheduled bodies	29
-	Admitted bodies	41
28,765	**Total Employers Contributions**	**34,046**
35,704	**Total Contributions Receivable**	**41,065**

*The £15.11m deficit funding reflects additional contributions made by the Authority to the Pension Fund. It consists of £6.3m past service contribution and £8.8 in voluntary planned contributions.

By authority

2014/15 £000		2015/16 £000
28,268	Havering	33,602
6,707	Scheduled bodies	6,854
729	Admitted Bodies	609
35,704	**Total Contributions Receivable**	**41,065**

8. Transfers in from Other Pension Funds

2014/15 £000		2015/16 £000
1,573	**Individual transfers in from other schemes**	**1,390**

9. Benefits Payable

By category

2014/15 £000		2015/16 £000
	Pensions	
26,137	Havering	26,757
782	Scheduled Bodies	887
482	Admitted Bodies	546
27,401	**Pension Total**	**28,190**
	Commutation and Lump Sum Retirements	
4,997	Havering	5,151
471	Scheduled Bodies	645
208	Admitted Bodies	375
5,676	**Commutation and Lump Sum Retirements Total**	**6,171**
	Lump Sum Death Benefits	
410	Havering	506
85	Scheduled Bodies	106
(73)	Admitted Bodies	-
422	**Lump Sum Death Benefits Total**	**612**
33,499	**Total Benefits Payable**	**34,973**

By authority

2014/15 £000		2015/16 £000
31,544	Havering	32,414
1,338	Scheduled bodies	1,638
617	Admitted Bodies	921
33,499	**Total Benefits Payable**	**34,973**

10. Payments To and On Account of Leavers

2014/15 £000		2015/16 £000
68	Refunds to members leaving service	76
1,438	Individual transfers to other schemes	1,673
0	Group Transfers (Elutec)	233
1,506		**1,982**

At the year end there are potential liabilities of a further £0.8m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions (*See Note 25).

11. Management Expenses

2014/15 £000		2015/16 £000
450	Administrative Costs	512
2,618	Investment Management Expenses	2,796
253	Oversight and Governance Costs	344
13	Local Pension Board	11
3,334		**3,663**

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

The Investment Management Expenses above includes £289k in respect of transaction costs (2014/15 £797k and restated £567k)

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 Note14).

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

12. Investment Income

2014/15 £000		2015/16 £000
754	Equity Dividend	642
*3,918	Fixed Interest Securities	*3,960
1,196	Pooled Property Income	1,145
404	Foreign Exchange Gains/(losses)	(1,398)
47	Interest on Cash Deposits	67
332	Other Income	380
6,651		**4,796**

***** Income includes Index linked Interest of £199k (2014/15 £432k)

13. Taxes on Income

2014/15 £000		2015/16 £000
-	Withholding Tax	(25)
-		**(25)**

14. Analysis of Investments

2014/15 £000		2015/16 £000
	Investment Assets	
	Equities	
3,906	UK Quoted	1,273
20,485	Overseas Quoted	19,114
24,391		**20,387**
	Fixed Interest Securities	
13,913	UK Public Sector	11,827
68,003	UK Private (Corporate)	62,191
-	Overseas Public Sector	-
81,916		**74,018**
	Index-Linked Securities	
49,766	UK Public Sector	52,374
731	UK Private (Corporate)	722
13,094	Overseas Public Sector	13,094
63,591		**66,190**
	Derivative Contracts	
21	Forward Currency Contracts	65
21		**65**
	Pooled Investment Vehicles	
	UK Managed Funds	
360,314	UK Quoted	357,428
19	UK Unquoted	169
318	Overseas	273
550	Property	-
	UK Unit Trust	
26,341	UK Property	33,449
387,542		**391,319**
	Cash Deposits	
9,044	Managers	7,188
9,044		**7,188**
-	Amounts receivable for sales	1,616
1,236	Investment income due	1,155
258	Outstanding Dividend and Recoverable Withholding Tax	164
1,494		**2,935**
567,999	**Total Investment Assets**	**562,102**

Note 14(Cont'd)

2014/15 £000		2015/16 £000
	Investment Liabilities	
	Derivative Contracts	
(550)	Forward FX Contracts	(295)
(355)	Amount payable for purchases	(1,092)
(5)	Investment Income Due	-
(910)	**Total Investment Liabilities**	**(1,387)**
567,089	**Total Net Investments**	**560,715**

14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2016
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Equities	24,391	11,210	(13,925)	(1,289)		20,387
Fixed Interest Securities	81,916	48,854	(53,785)	(2,967)		74,018
Index-linked Securities	63,591	127,502	(126,772)	1,869		66,190
Pooled Investment Vehicles	387,542	128,240	(118,209)	(6,254)		391,319
Derivatives – forward currency contracts	(529)	244,977	(244,977)	299		(230)
Cash Deposits (fund managers)	9,044			1	(1,857)	7,188
	565,955	**560,783**	**(557,668)**	**(8,341)**	**(1,857)**	**558,872**
Other Investment Balances	1,134			5	704	1,843
	567,089	**560,783**	**(557,668)**	**(8,336)**	**(1,153)**	**560,715**

	Market Value at 31 March 2014	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2015
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Equities	24,720	8,136	(11,533)	3,068	-	24,391
Fixed Interest Securities	68,082	30,756	(26,439)	9,517	-	81,916
Index-linked Securities	53,644	185,632	(186,914)	11,229	-	63,591
Pooled Investment Vehicles	347,520	204,674	(204,540)	39,888	-	387,542
Derivatives – forward currency contracts	109	260,038	(260,038)	(638)	-	(529)
Cash Deposits (fund managers)	5,951	-	-	(1)	3,094	9,044
	500,026	**689,236**	**(689,464)**	**63,063**	**3,094**	**565,955**
Other Investment Balances	750	-	-	(2)	386	1,134
	500,776	**689,236**	**(689,464)**	**63,061**	**3,480**	**567,089**

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.

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 £289k, including transition costs (2014/15 £797k and £567k restated). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2016 were as follows:

14b. Investments analysed by Fund Manager

Value 31 March 2015		**Manager**	**Mandate**	**Value 31 March 2016**	
£000	**%**			**£000**	**%**
119,855	21.13	Royal London	Investment Grade Bonds	121,510	21.67
26,671	4.70	UBS	Property	33,942	6.05
72,851	12.85	Ruffer	Absolute Return	71,006	12.66
55,502	9.79	State Street Global Assets	Passive UK/Global Equities	72,130	12.87
11,682	2.06	State Street Global Assets	Sterling Liquidity Fund	6,239	1.11
101,846	17.96	Baillie Gifford	Pooled Global Equities	83,794	14.94
17	-	Barings DAAF	Multi Asset	-	-
76,732	13.53	Baillie Gifford DGF	Multi Asset	-	-
101,882	17.97	GMO	Multi Asset	96,197	17.16
		London CIV	Pooled Global Equities	75,874	13.53
51	0.01	Other		23	0.01
567,089	**100.00**	**Total Fund**		**560,715**	**100.00**

All of the above companies are registered in the United Kingdom

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

Market Value 31 March 2015	% of total fund	Security	Market Value 31 March 2016	% of total fund
£000			£000	
101,882	17.73	GMO Global Real Return (UCITS) Fund	96,197	17
101,846	17.72	Baillie Gifford Global Alpha Pension Fund	83,794	15
-	-	London CIV Diversified Growth Fund	75,724	14
55,502	9.66	SSGA MPF All World Equity Index	72,130	13
-	-	UBS Property	33,449	6
76,732	13.35	Baillie Gifford Diversified Growth Fund	-	-

14c. Stock Lending

We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager, State Street Global Assets, who carry out stock lending as part of the Fund's activities. It is not possible to allocate a share of the stock lending activity to individual fund members. The lending programme is managed by State Street Securities Finance (SSSF), a division of State Street's Global Markets area. At present, lending is collateralised by non-cash collateral and marked to market on a daily basis. Revenue generated from securities is allocated 60% to the pooled fund in respect of investors and 40% to State Street, which pays all costs associated with the lending programme.

15. 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 Ruffer. A breakdown of forward contracts held by the Fund as at 31 March 2016 is given below:

Open forward currency contracts

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value (Unrealised Gain) £000	Liability Value (Unrealised Loss) £000
Up to one month	GBP	5,838	JPY	987,454	-	(277)
Up to two months	GBP	17,500	USD	25,062	65	-
Up to three months	GBP	818	EUR	1,053	-	(18
Gross open forward currency contracts at 31 March 2016					**65**	**(295)**
Net forward currency contracts at 31 March 2016					**-**	**(230)**
Prior year comparative						
Gross open forward currency contracts at 31 March 2015					**21**	**(550)**
Net forward currency contracts at 31 March 2015					**-**	**(529)**

16. Financial Instruments

(a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading. No financial assets were reclassified during the accounting period.

31 March 2015				**31 March 2016**		
Fair value through fund account	**Loans and receivables**	**Financial liabilities at amortised cost**		**Fair value through fund account**	**Loans and receivables**	**Financial liabilities at amortised cost**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial Assets			
24,391	-	-	Equities	20,387	-	-
81,916	-	-	Fixed Interest Securities	74,018	-	-
63,591	-	-	Index linked securities	66,190	-	-
14	-	-	Derivative contracts	65	-	-
361,201	-	-	Pooled investment Vehicles	357,870	-	-
26,341	-	-	Property	33,449	-	-
-	9,044	-	Cash	-	7,187	-
	-		Other Investment Balances	-	2,935	-
-	9,525	-	Debtors	-	13,708	-
557,454	**18,569**	**-**	**Financial Assets Total**	**551,979**	**23,830**	**-**
			Financial Liabilities			
(543)	-	-	Derivative contracts	(295)	-	-
-	-	-	Other Investment Balances	-	-	(1,092)
-	-	(811)	Creditors	-	-	(1,481)
(543)	**-**	**(811)**	**Financial Liabilities Total**	**(295)**		**(2,573)**
556,911	**18,569**	**(811)**	**Grand total**	**551,684**	**23,830**	**(2,573)**
	574,669				**572,941**	

16. Financial Instruments

(b) Net Gains and Losses on Financial Instruments

2014/15 £000		2015/16 £000
	Financial assets	
63,061	Fair value through fund account	(8,336)
-	Loans and receivables	-
	Financial liabilities	
-	Fair value through fund account	-
-	Loans and receivables	**-**
63,061	**Total**	**(8,336)**

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

(c) Valuation of financial instruments carried out at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following tables 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.

Values at 31 March 2016	Quoted Market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial Assets				
Financial assets at fair value through fund account	518,361	169	33,449	551,979
Loans and receivables	23,830	-	-	23,830
Total Financial Assets	**542,191**	**169**	**33,449**	**575,809**
Financial Liabilities				
Financial liabilities at fair value through fund account	(295)	-	-	(295)
Financial liabilities at amortised cost	(2,573)	-		(2,573)
Total Financial Liabilities	**(2,868)**	**-**	**-**	**(2,868)**
Net Financial Assets	**539,323**	**169**	**33,449**	**572,941**

Values at 31 March 2015	Quoted Market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial Assets				
Financial assets at fair value through profit and loss	531,112	19	26,341	557,472
Loans and receivables	18,551	-	-	18,551
Total financial Assets	**549,663**	**19**	**26,341**	**576,023**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(543)	-	-	(543)
Financial liabilities at amortised cost	(811)	-	-	(811)
Total Financial Liabilities	**(1,354)**	**-**	**-**	**(1,354)**
Net Financial Assets	**548,309**	**19**	**26,341**	**574,669**

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 Authority 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 the return on risk.

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

Other Price Risk

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

The Fund is exposed to share and derivative price risk. This arises from investments held for the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movements during the financial year, in consultation with the Fund's performance monitoring service, it has been determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

Asset Type	31 March 2016 Potential market movements (+/-)	31 March 2015 Potential market movements (+/-)
Global Equities inc. UK	11.30%	-
Fixed Interest Bonds	8.18%	7.74%
Index Linked Bonds	10.82%	11.26%
Global Pooled inc UK	4,78%	9.04%
Property	2.69%	4.86%
Cash	0.01%	0.01%

The potential price changes disclosed above are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend on the Funds asset allocations. The potential volatilities are consistent with a one-standard deviation movement in the value of assets over the last three years. This can be applied to the period end asset mix.

If the market price of the Fund's investments had increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2016 £000	Change %	Value on Increase £000	Value on Decrease £000
Global Equities inc.UK	20,387	11.30%	22,690	18,083
Fixed Interest Bonds	74,018	8.18%	80,073	67,964
Index linked Bonds	66,190	10.82%	73,352	59,028
Global Pooled inc.UK	357,870	4.78%	374,976	340,764
Property	33,449	2.69%	34,349	32,549
Cash	7,187	0.01	7,188	7,186
Total	**559,101**		**592,628**	**525,574**

Asset Type	Value as at 31 March 2015 £000	Change %	Value on Increase £000	Value on Decrease £000
Global Pooled inc.UK	385,592	9.04	420,450	350,734
Fixed Interest Bonds	81,916	7.74	88,256	75,576
Index linked Bonds	63,591	11.26	70,751	56,431
Property	26,341	4.86	27,621	25,061
Cash	9,044	0.01	9,045	9,043
Total	**566,484**		**616,123**	**516,845**

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest Rate Risk Sensitivity Analysis

The Pension Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The council 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.

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

Assets exposed to interest rate risk	Value as at 31 March 2016 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	140,208	1,402	141,610	138,806
Cash and Cash Equivalents	7,188	72	7,260	7,116
Total Change in Asset Value	**147,396**	**1,474**	**148,870**	**145,922**

Assets exposed to interest rate risk	Value as at 31 March 2015 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	145,507	1,455	146,962	144,052
Cash and Cash Equivalents	9,044	90	9,134	8,954
Total Change in Asset Value	**154,551**	**1,545**	**156,096**	**153,006**

This 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. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

Currency risk represents the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund, i.e. pounds sterling.

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's performance measurement service it has been determined that a likely volatility associated with foreign exchange rate movements is 7.80% over a rolling 36 month period.

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

A 7.80% 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:

Assets exposed to currency risk	Value as at 31 March 2016 £000	Potential Market movement 7.80%	Value on increase £000	Value on Decrease £000
Overseas Equities	19,113	1,491	20,604	17,622
Overseas Pooled	1,901	148	2,049	1,753
Overseas Index Linked Bonds	13,094	1,021	14,115	12,073
Overseas Cash	26	2	28	24
Total change in assets available to pay benefits	**34,134**	**2,662**	**36,796**	**31,472**

Assets exposed to currency risk	Value as at 31 March 2015 £000	Potential Market movement 7.80%	Value on increase £000	Value on Decrease £000
Overseas Equities	20,485	1,510	21,995	18,975
Overseas Pooled	2,249	166	2,415	2,083
Overseas Index Linked Bonds	13,094	965	14,059	12,129
Overseas Cash	140	10	150	130
Total change in assets available to pay benefits	**35,968**	**2,651**	**38,619**	**33,317**

(b) Credit Risk

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

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

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

(c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Administering Authority therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. The Pension 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 2016 the value of liquid assets was £522m, which represented 93% of the total Fund (31 March 2015 £540m, which represented 95% of the total fund assets).

(d) Refinancing Risk

The key risk is that the Authority 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

London Borough of Havering ("the Fund")

Actuarial Statement for 2015/16

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). In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (N.B. this will also minimise the costs to be borne by council tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

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

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 60% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £461 million, were sufficient to meet 61% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £292 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 valuation report dated 31 March 2014.

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 2013 valuation were as follows:

	31 March 2013	
Assumptions	**Nominal**	**Real**
Discount Rate for Period	4.8%	2.3%
Pay increases *	3.3%	0.8%
Price inflation/Pension increases	2.5%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.1 years	24.1 years
Future Pensioners	24.2 years	26.7 years

** Currently aged 45*

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from the London Borough of Havering, Administrating Authority to the Fund.

Experience over the period since April 2013

Real bond yields have fallen placing a higher value on liabilities. The effect of this has been offset by the effect of strong asset returns and deficit contributions. Funding levels are therefore likely to have improved marginally and deficits fallen over the period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Employers' contribution rates for the Authority, in line with the actuary's recommendation are as shown below:

	Future Service %	Past Service %	Total Pensionable Pay %
April 14 to March 15	15.6	6.4	22.0
April 15 to March 16	15.6	6.4	22.0
April 16 to March 17	15.6	6.4	22.0

The employer contributions for the other employers in the Fund range from 17.3% to 28.7% of pensionable pay.

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, on an IAS19 basis, every year using the same base data as the Funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18).

31 March 2015	Year Ended	31 March 2016
£m		£m
1,019	Present Value of Promised Retirement Benefits	992
575	Fair Value of Scheme assets (bid Value)	572
444	Net Liability	420

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the actuary satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. The actuary has not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

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

It is estimated that this liability at 31 March 2016 comprises £476m (£460m 31 March 2015) in respect of active members, £153m in respect of deferred pensioners (£164m 32 March 2015) and £363m in respect of pensioners (£395m 31 March 2015). The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the actuary is satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. No allowance has been made for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. 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 as required by the Code of Practice. They are given below. It is estimated that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £51m.

Financial assumptions

The actuary's recommended financial assumptions are summarised below:

Year Ended	31 March 2016	31 March 2015
	% p.a.	% p.a.
Inflation/Pensions Increase Rate	2.1	2.1
Salary Increase Rate	3.1	3.0
Discount Rate	3.4	3.1

Longevity assumption

As discussed in Note 18, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.1 years	24.1 years
Future Pensioners	24.2 years	26.7 years

*Future pensioners are assumed to be currently aged 45 at the most recent formal valuation as at Match 2013.

Please note the longevity assumptions are identical to last year 's IAS26 disclosure for the Fund..

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Professional notes

These notes accompanies the covering report titled 'Actuarial Valuation as at 31 March 2016 for IAS19 accounting purposes. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

20. Current Assets

2014/15 £000		2015/16 £000
	Debtors:	
8	Pension Grants	-
7	Other Local Authorities	-
345	Contributions due from employers	288
71	Contributions due from employees	82
-	Pension Fund Investment Interest	67
2,608	Pension Fund Bank Account Balances	675
2	Debtors Refund	-
5,298	Cash deposit with LB Havering	12,595
8,339	**Current Assets**	**13,707**

2014/15 £000	Analysis of Debtors	2015/16 £000
8	NHS Bodies	-
7	Other local authorities	-
345	Public corporation and trading funds	288
73	Other entities and individuals	82
433	**Total Debtors**	**370**

21. Current Liabilities

2014/15 £000		2015/16 £000
	Creditors:	
(188)	Unpaid Benefits	(883)
(263)	Accrued Expenses	(251)
(305)	Income Tax Recoveries	(320)
(3)	Holding Accounts	(27)
(759)		**(1,481)**

2014/15 £000	Analysis of Creditors	2015/16 £000
(759)	Other entities and individuals	(1,481)
(759)	**Total**	**(1,481)**

22. Additional Voluntary Contributions

Market Value 2014/15	AVC Provider	Market Value 2015/16
£000		**£000**
803	Prudential	707
160	Standard Life	169

Some employees made additional voluntary contributions (AVC's) of £54,827 (2014/15 £62,496) excluded from these statements. These are deducted from the employees' salaries and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2015/16 were £40,807 (2014/15 £47,380) to the Prudential and £14,020 (2014/15 £15,116) to Standard Life.

23. Agency Services

Havering Council pays discretionary awards to the former employees of Havering. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below.

2014/15		2015/16
£000		**£000**
1,464	Payments on behalf of Havering Council	1,452

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 Havering Pension Fund is administering by Havering Council and consequently there is a strong relationship between the Authority and the Pension Fund. In 2015/16, £0.450m was paid to the Authority for the cost of administrating the Fund (2014/15 £0.411m).

The Authority is also the largest employer in the Fund and in 2015/16 contributed £27.798m (2014/15 £22.526m) to the Pension Fund in respect of employer's contributions.

Part of the Pension Fund internal cash holdings are invested on the money markets by the treasury management operations of Havering Council, through a service level agreement. As at 31 March 2016 cash holdings totalled £12.9m (2014/15 £7.6m), earning interest over the year of £67k (2014/15 £47k).

Governance

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 Group Director of Communities and Resources.

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

Each member of the Pension Fund Committee is required to declare their interests at each meeting.

During the year no Member or Council officer with direct responsibility for Pension 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.

Key Management Personnel

Paragraph 3.9.4.3 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) as at 31 March 2016 totalled £186k (2014/15 £186k). This relates to an outstanding commitment due on an unquoted private equity fund.

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

Following the Freedom and Choice provisions announced in the 2014 Budget, the Pension Fund has seen some enquiries from members about transferring benefits out of the LGPS. As mentioned in Note 10 there are potential liabilities of £0.8m in respect of individuals transferring out of the pension Fund upon whom the Fund is awaiting final decisions. Information is not available which shows how much of this is attributable to Freedom and Choice provisions.

26. Contingent Assets

Three admitted bodies in the Havering Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds total £4.2m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Five admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.7m.

27. Impairment Losses

There were no material impairment losses for bad and doubtful debts as at 31 March 2016.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 20 SEPTEMBER 2016

Subject Heading:	**PENSION FUND ANNUAL REPORT-YEAR ENDED 31 MARCH 2016**
CMT Lead:	**Andrew Blake Herbert**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Accountant*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Regulation 57 of the LGPS Pension Scheme Regulations 2013 applies from reporting period commencing 1 April 2014 and requires an administrative authority to publish an annual report
Financial summary:	Audit costs for the pension fund annual report are part of the overall cost of auditing the pension fund statement of accounts

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

Havering will be clean and its environment will be cared for	[]
People will be safe, in their homes and in the community	[]
Residents will be proud to live in Havering	[x]

SUMMARY

This report includes the Pension Fund Annual Report 2015/16 which has been prepared in accordance with Regulation 57 of the Local Government Pension Scheme Regulations 2013 which applies for reporting periods beginning 1 April 2014. This supersedes Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

RECOMMENDATIONS

1. The committee agree the 2015-2016 Pension Fund Annual Report.

2. The committee agree the Pension Fund Annual Report will be published electronically.

3. That the Chairman and the Chief Executive be authorised to conclude and sign so far as necessary, the annual report.

REPORT DETAIL

1 Background

1. For reporting periods beginning 1 April 2014, the statutory basis for Local Government Pension Scheme (LGPS) fund annual reports is Regulation 57 of The Local Government Pension Scheme Regulations 2013. It states that an administrating authority must, in relation to each year beginning on 1st April 2014 and each subsequent year prepare a document ('the pension fund annual report'). This supersedes the regulations first introduced in 2008. LGPS funds have been required to produce an annual report each year since 2008.

2. The authority must publish the pension fund annual report on or before 1 December following the year end. This annual report covers the period 1 April 2015 to 31 March 2016.

3. The Regulations state that the annual report must contain the following:

   a) Management and Financial Report
   b) Investment Policy and Performance Report
   c) Scheme Administration Report
   d) Actuarial Statement
   e) Current version of the Governance Compliance Statement
   f) Fund Account and Net Asset Statement (including Audit opinion)
   g) Levels of performance set out in a Pensions Administration Strategy
   h) Current version of Funding Strategy Statement
   i) Current version of Statement of Investment Principles
   j) Current version of Communication Strategy
   k) Any Other Material

4. In preparing and publishing the pension fund annual report, the authority must have regard to guidance given by the Secretary of State.

5. On the 18 August 2014 the Department of Communities and Local Government (DCLG) issued a letter stating that authorities should use the guidance published by the Chartered Institute of Public Finance & Accountancy (CIPFA).

6. The pension fund annual report attached as **Appendix A** has been prepared in accordance with the guidance issued by the DCLG and with regard to the updated CIPFA/PRAG guidance issued in August 2014.

7. The Audit Commission requires auditors to treat the LGPS fund as a separate audit engagement and requires a separate audit opinion on the pension fund accounts and the annual report. The auditors opinion will be included in the annual report which must be published no later than **1 December 15**.

8. The DCLG have stated that it can be taken that the term ‘publish’ is given a wider meaning in that publication can be by electronic means. Once the annual report has been signed off it will be made available on the council’s website. However hard copies will be available upon request.

9. At the time of writing this report the 2015/16 pension fund annual report is still subject to final clearance by our auditor’s Ernst & Young as part of the overall audit of the Council’s accounts. A verbal update will be provided at the meeting on the outcome or progress of the audit and any material changes will be distributed as a late item.

IMPLICATIONS AND RISKS

Financial implications and risks:

Auditors will be unable to finalise the audit opinion for the Administering Authority as a whole until they are satisfied that the financial statements in the annual report are the same as those reported in the authority's accounts.

The planned cost of a separate audit opinion for the 2015/16 pension fund accounts is £21,000, which includes the cost of the Annual Report. This cost will be met from the Pension Fund. Final costs will not be known until the audit is finalised.

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

Legal implications and risks:
As stated in the main report Regulation 57 of the Local Government Pension Scheme Regulations 2013/2356 requires the administering authority to produce an annual report covering a number of different aspects set out at paragraph 3 above. Provided the statement is published by 1 December there are minimal legal risks involved.

Human Resources implications and risks:
None arise from this report.

Equalities implications and risks:
None arise from this report as this report is required to be published in order to comply with Local Government Pension Scheme Regulations 2013.

BACKGROUND PAPERS

Background Papers List
2015/2016 Statement of Accounts
Statement of Investment Principles (Nov 15)
Funding Strategy Statement (February 14)
Governance Compliance Statement (Nov 15)
Communications Strategy (2016 -2018)

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HAVERING PENSION FUND ANNUAL REPORT MARCH 2016

Pensions Regulator Registration Number 10027841

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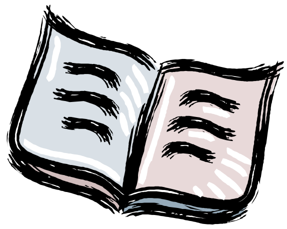
Contents Page



Trustee Report

Foreword to the Annual Report of the Havering Pension Fund for the year ended 31st March 2016

During the year the Pensions Committee dealt with several key issues, which are listed on pages 42-43 of the report and its members attended a number of associated training and development seminars, which are similarly listed on pages 38-39.

In addition to highlighting the work of the Pensions Committee, an overview of the activities of the Pension Administration team is contained on pages 16-19 of the report.

The Fund is invested in shares issued by companies listed on the stock exchange and on foreign exchanges and also in bonds, property funds and in cash. The value of the Fund as at 31st March 2016 was £572m, a slight decrease on the previous year end valuation of £575m.

The overall return on the Fund's investments (expressed in percentage terms) was -1.2%. Further information on the Fund's investment performance can be found on pages 25-26 of this report.

The Council agreed to participate in the London Collective Investment Vehicle (LCIV) and following the Budget announcement in the summer of 2015 the LCIV has gained momentum during 2016 in appointing commonly shared investment managers to its pool. Havering held assets with one of these managers and assets were transferred to the LCIV during February 2016. The expectation is that investment pools will begin to be used for collective investment from April 2018 onwards, however since March 2016 another two managers used by our Fund have been appointed to the LCIV and assets with these managers have since been transferred, representing approximately 25% of the Fund's Assets now under management with the LCIV. We will continue to work with the LCIV to transition other assets as and when Fund Managers are appointed and the mandates meet the Fund's investment strategy goals.

In conjunction with our fund managers we will be monitoring events following the referendum result to leave the EU as it will most likely take some time for the full implications to be realised but we would expect stock markets to still be very volatile.

We continue to look forward to working closely with the Local Pension Board as it works towards achieving its primary objective, assisting the scheme manager in ensuring compliance with regulations and legislation relating to governance and administration.

I trust that this report is both clear and informative to Fund members and for the general public, but should clarification be required, or comment made, contact details are shown on page 84.

Councillor John Crowder
Chairman – Pensions Committee

INTRODUCTION

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

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

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

Scheme Details

A new Career Average Revalued Earnings (CARE) Scheme being introduced from 1 April 2014.

Members of the LGPS belong to a scheme which currently provides high quality pension benefits. Since the introduction of the CARE scheme pensions build up at 1/49th of actual pensionable pay for members of the main section of the scheme and 1/98th for members who elect to be in the 50/50 section. This pension builds up on a yearly basis and is revalued in line with CPI (Consumer Price Index). For membership prior to 1st April 2014 pension is based on the best of the last three year's pensionable pay (whole time equivalent pay) and actual scheme membership (reckonable service). Because the scheme is a defined benefit scheme, members' benefits are calculated strictly in accordance with the Regulations and are not subject to changes generally affecting the fund assets. The scheme is contracted out of the State Second Pension. This means that any pension paid from the Local Government Pension Scheme must be at least equal to the GMP (Guaranteed Minimum Pension) otherwise provided by SERPS (State Earning Related Pension Scheme) to 5 April 1997.

For all leavers and retirees all pensions are increased annually in line with the CPI under the pension increase review order.

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

The scheme is open to all local authority employees (except teachers) who have their own schemes and for employees of other eligible bodies. Admitted bodies currently have "closed" membership, although the decision on whether membership is "open" or "closed" rests with the incoming employer subject to risk review for the Pension Committee. All eligible employees who have a permanent or temporary contract of three months or more are contractually enrolled in the fund from the first day of employment. Any member of the scheme can opt out by completing an opt out form available from the pension website www.yourpension.org.uk/handr. The opt out process fully complies with the Automatic Enrolment legislation which is currently being implemented when Scheme Employers reach their staging dates. A pension officer has been supporting the Automatic Enrolment process with all Scheme Employers.

A summary of the benefits of the LGPS are shown below. Further details of the specific conditions and detailed benefits can be obtained from Exchequer and Transactional Services and the Pensions website at www.yourpension.org.uk/handr.

The core benefits of the scheme are:

- A pension based on final pay and the length of service in the scheme for membership prior to 1st April 2014, plus a CARE pension based on 1/49th or 1/98th of each year actual pensionable pay for membership from 1st April 2014.
- The ability to provide a tax-free lump sum by commutation of pension. Members of the scheme prior to 1 April 2008 have a tax free lump of approximately three times the pension accrued based on service to 31 March 2008.
- Life assurance of three times the member's assumed pensionable pay.
- Pensions for spouses, civil partners, eligible cohabiting partners and eligible children.
- An entitlement paid early if a member has to stop work due to permanent ill health.

- Pensions increase in line with CPI.
- Pensions are payable from age 55, including flexible retirement.

The cost of membership:

- Employees pay a tiered contribution based on actual pensionable pay of between 5.5% and 12.5%, or half this rate for 50/50 section members.
- Employers also pay a contribution towards the pension costs. This amount is decided every three years following an independent actuarial evaluation by the Fund's Actuary. In 2015/16 the contribution rates for employers in the Havering Pension Fund range from 17.3% to 28.8% based on the valuation as at 31 March 2013.

LGPS 2014 Career Average Revalued Earnings (CARE) Scheme

The new CARE scheme was implemented on 1 April 2014. The main changes in the scheme are:

- **Pension builds up in a new way**

Each year in the new scheme the member will build up a pension equal to 1/49th of their actual pensionable pay in that year. There will also be annual inflation increases, so the pension account keeps up with the cost of living each year. The 2008 LGPS Scheme is a final salary scheme based on final full time equivalent pensionable pay at leaving with an accrual rate of 1/60th, which is calculated at the point of leaving with inflation increases added from this time. For service accrued prior to 31 March 2014, pension benefits will be calculated in line with preceding regulations.

- **Pensionable pay**

Under the CARE scheme pensionable pay includes all non-contractual overtime plus additional hours for part time staff, with employer contributions being payable on these elements as well. Previously pensionable pay excluded non-contractual overtime and additional hours.

- **Changes to the normal pension age**

For pension building up from 1 April 2014 the scheme's normal pension age will be the same as the state pension age, with 65 as the earliest age. Scheme members can find out their state pension age from www.gov.uk/calculate-state-pension.

- **More flexibility around when a member can leave and take their pension**

Members will be able to choose to leave and draw their pension anytime from age 55 – but the longer they work the more their pension will be. It will be reduced if they retire before their normal pension age and increased if they retire later.

- **Employee contribution band**

The employee contribution bands range from 5.5% to 12.5%. The applicable band for members will be based on their actual pay rather than full time equivalent, with actual pay now including non-contractual elements such as overtime.

Further details of the new scheme can be found in the factsheet link here.

Management and Financial Performance Report

SCHEME MANAGEMENT AND ADVISERS

Day to day management of the Fund is delegated to the authority's section 151 officer (currently the Chief Executive). Investment strategy and performance monitoring of the Fund is a matter for the Pensions Committee which obtains and considers advice from the Authority's officers, and as necessary from the Fund's appointed professional adviser, actuary and performance measurers who attend meetings as and when required.

In line with the Public Service Pensions Act 2013, a Local Pension Board has been established and its role is as follows:

- Assist the Administering Authority as Scheme Manager; –
    - to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
    - to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
    - in such other matters as the LGPS regulations may specify
- Secure the effective and efficient governance and administration of the LGPS for the XYZ Pension Fund
- Provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.

The Pension Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Pension Board will also help ensure that the Havering Pension Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Pension Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively.

The Pension Board consists of 2 employer representatives and 2 scheme member representatives. A Chair was appointed by the employer and scheme member representatives of the Board from amongst their own number and will serve on a rotating basis with the term of office shared between an employer and a scheme member representative on an equal basis.

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

The membership of the Pensions Committee reflects the political balance of the Council and therefore the members of the Pensions Committee are as follows:

Cllr John Crowder (Chair) – Conservative Group
Cllr David Johnson (Vice Chair) – UKIP
Cllr Melvin Wallace - Conservative Group
Cllr Roger Westwood – Conservative Group
Cllr Ray Morgon – Residents' Group
Cllr Stephanie Nunn – Residents' Group
Cllr Clarence Barrett – East Havering Residents' Group
Union Members (Non-voting) - John Giles (Unison), Andy Hampshire (GMB)
Admitted/Scheduled Body Representative (voting) – Heather Foster-Byron – Employer Representative

From May 2015 Cllr Ray Morgon replaced Cllr John Mylod - Residents Group

From May 2016 Cllr Nic Dodin replaced Cllr Ray Morgon - Residents Group and Cllr Jason Frost replaced Cllr Roger Westwood – Conservative Group

Cllr John Crowder
Chair

Conservative Group

Cllr David Johnson
Vice Chair

UKIP

Cllr Melvin Wallace

Conservative Group

Cllr Roger Westwood

Conservative Group (May 14 to May 16)

Cllr Stephanie Nunn

Residents' Group

Cllr Clarence Barrett

East Havering Residents' Group

Cllr Ray Morgon

Residents' Group
(May 15 to May 16)

Cllr Nic Dodin

Residents' Group (from May 16)

Cllr Jason Frost

Conservative Group
(from May 16)

The terms of reference for the Pensions Committee are:

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

Fund Administrator	London Borough of Havering, Town Hall, Romford, RM1 3BD
Fund Actuary	Hymans Robertson
Auditors	PricewaterhouseCoopers LLP (PwC)
Custodians	State Street Global Services
Investment Managers	Royal London Asset Management (Investment Bonds) UBS (Property) Ruffer LLP (Multi Asset) State Street (Passive UK/Global Equities) Baillie Gifford (Global Equities) Baillie Gifford Diversified Growth Fund (Multi Asset) GMO Global Real Return (UCITS) from January 2015 London CIV from November 2015
Investment Advisers	Hymans Robertson
Legal Advisers	London Borough of Havering Legal Services provide legal advice as necessary (specialist advice is procured as necessary)
Bankers	National Westminster Bank PLC
Performance Measurement	WM Company
AVC Providers	Prudential and Standard Life
Chief Executive	Andrew Blake-Herbert
Pension Fund Accountant	Debbie Ford
Pensions Administration Management	Sarah Bryant Director of Exchequer & Transactional Services
Local Pension Board -	**Employer representatives**: Justin Barrett – Redden Court School Me David Holmes – Havering College of Further and Higher Education **Scheme Member representatives:** Mrs Marshajane Thompson Mr Mark Holder

Employers in the Fund are as follows:

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

Scheduled Bodies:

Havering College of Further Education
Havering Sixth Form College
ELUTECH College of Design and Engineering (transferred out 1 September 2015)

Secondary Schools:

Drapers' Academy (Academy from 1 September 2010)
Abbs Cross Academy and Arts College (Academy from 1 April 2011)
The Brittons Academy Trust (Academy from1 April 2011)
Coopers' Company & Coborn School (Academy from1 April 11)
The Albany School (Academy from 1 August 2011)
The Campion School (Academy from 1 August 2011)
Hall Mead School (Academy from 1 August 2011)

Sacred Heart of Mary Girls' School (Academy from 1 August 2011)
St Edward's Church of England School & Sixth Form (Academy from 1 August 2011)
Emerson Park Academy (Academy from 1 September 2011)
Redden Court School (Academy from 1 September 2011)
The Frances Bardsley Academy for Girls (Academy from 1 July 2012)
Bower Park Academy (Academy from 1 February 2013)
The Chafford School (Academy from 1 November 2013)

Primary Schools:

Upminster Junior Academy (Academy from 1 November 2012)
Upminster Infant School (Academy from 1 November 2012)
Langtons Junior Academy (Academy from 1 April 2013)
Oasis Academy Pinewood (Academy from 1 October 2013)
Drapers' Brookside Junior School (Academy from 1 June 2014)
Rise Park Infant School (Academy from 1 September 2014
Rise Park Junior School (Academy from 1 September 2014)
Pyrgo Priory Primary School (Academy from 1 February 2015)
NEW: Dycorts School (Academy from 1 September 2015)
NEW: Drapers' Maylands Primary School (Academy from 1 September 2015)

Admitted Bodies:

Havering Citizens' Advice Bureau (ceased 19 September 2015)
Sports and Leisure Management Ltd – Fitness and Health
Sports and Leisure Management Ltd – Charitable Trust
Sports and Leisure Management Ltd – Food & Beverage
KGB Cleaners (ceased 1 August 2015)
Family Mosaic (joined 1 November 2012)
Sodexo Catering (joined 1 January 2014 – pending legal agreement)
Breyer Group Repairs (joined 1 March 2014 - pending legal agreement)
Breyer Group Voids (joined 1 June 2014 – pending legal agreement)
NEW: Caterlink (joined 1 September 2015)
NEW: Accent Catering Services (joined 1 September 2015 – pending legal agreement)

The Havering Pension Fund also has the following bodies:

Designated Bodies:

Trust Schools

Corbets Tey Special School

Foundation Schools:

Marshall Park School (Foundation from 1 September 2011)
The Royal Liberty School
Sanders School
The Mawney School

Voluntary Aided Schools:

St Alban's Catholic Primary
St Edward's Church of England Voluntary Aided Primary School
St Joseph's Catholic Primary School
St Mary's Catholic Primary School
St Patrick's Catholic Primary School
St Peter's Catholic Primary School
St Ursula's Catholic Junior School
St Ursula's Catholic Infant School
La Salette Catholic Primary School

RISK MANAGEMENT

Overall

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the potential risks to the Fund, and will take appropriate action to mitigate the impact of these on the fund wherever possible.

Risks are identified and assessed in line with the Authority's risk management process, with risks being identified within Service Plans.

Longevity in membership of the Pensions Committee is encouraged to ensure that expertise is maintained. The Authority recommends that the membership remains static for the elected member's term of office in order that they are fully trained in matters relating to pensions, unless exceptional circumstances require a change. Elected members are governed by the administering authority's code of conduct and this includes a process for identifying and declaring conflicts of interest.

Risk is also identified and managed within the following statutory documents:

- Governance Compliance Statement,
- The Funding Strategy Statement
- The Statement of Investment Policy
- Statement of Accounts

These documents are reviewed on an on-going basis. Please refer to these documents in the appendices for more details on the risks identified and how these are currently managed.

Governance Risk
The Fund uses the services of an external Actuarial Adviser (Hymans Robertson) whose advice is sought in setting employer contribution rates and bond rates to mitigate the risk of the Fund not receiving the right income and financial protections for the Fund.

Investment Risk
The Fund uses the services of an external Investment Adviser (Hymans Robertson) whose advice is sought on investment matters and who attends quarterly committee meetings where investment performance is reported for the Fund and for each individual fund manager.

Fund Managers
As a risk management tool, assurance is sought from the fund managers with regard to their own internal controls by reviewing their audited assurance reports (AAF 01/06, SSAE16 or ISAE 3402). Any exceptions highlighted by their auditors are evaluated by officers.

Benefits Administration
In summary, the risks relating to administration will be around the obligations to:

- Maintain accurate records;
- Pay benefits accurately; and
- Pay benefits on time as agreed with employers or under statute.
- Provide accurate and timely information on Pensions

The main areas of risk are likely to be non-payment or late payment of members' benefits, incorrect calculation of members' benefits, breach of Data Protection or failure to comply with Disclosure of Information requirements. Another growing area of risk that also needs to be assessed and managed is that of fraud. Participating in the National Fraud Initiative (NFI) is one of the ways in which pension fraud is successfully managed, together with all pension administration staff undertaking fraud awareness training and data protection training.

The impact of the above risks would be statutory fines, loss of reputation, adverse publicity and increased audit fees.

Details on how these risks are mitigated are included in the Risk Register and Business Continuity Plan.

In line with the Local Government Pension Scheme Regulations (LGPS) and good practice the London Borough of Havering as an administering authority has developed a Pension Fund Risk Register, details of which can be found in an appendix to this report.

The Risk Register has been compiled with reference to the CIPFA publication '*Managing Risk in the LGPS (2012)*', input from the Internal Audit, Insurance and Corporate Risk Manager, a Risk Consultant from Zurich Municipal, the Pension Fund Accountant, the Corporate and Strategic Finance Manager and the Pensions Administration Project Manager.

The Risk Register identifies the key risks that the Pension Fund may face and the measures that can and have been put in place to mitigate those risks.

Seven key risks have been identified and recorded in the risk register and are summarised below:

- Inaccurate three yearly actuarial valuations – resulting in insufficient funding to meet liabilities

- Incorrect/inappropriate Investment Strategy – leading to failure to meet strategic objectives by not reducing pension deficit

- Failure of investments to perform in line with growth expectations – potential loss of money

- Failure to comply with legislative requirements – damaging the Authority's reputation and leading to potential litigations

- Inability to manage the Pension Fund and associated services – with negative impacts upon service provision

- Failure to effectively enrol new employers/members – impacts on cash flow and leads to possible litigations

- Pension Fund payment Fraud – damaging the Authority's reputation and leading to potential financial loss

It should be recognised that it may not be possible to eliminate all risks but accepting and actively managing risk is crucial to the proper governance of the fund. All risks will be regularly reviewed to ensure that they remain relevant and that the controls are in place to manage risks where feasible.

Risk can be classified as having two measurements that need to be assessed to determine the scale of the risk i.e.

- **Likelihood** – the possibility that a risk will occur
- **Impact** – the consequences if the risk were to occur

These measurements of risk are then scored as follows:

- **Inherent Risk Score:** The inherent risk score is the assessment of a risk in terms of impact and likelihood, without consideration of the mitigations in place.

- **Residual Risk Score:** This is the assessment of the risk, at the current point in time, having considered the mitigations in place.

There are a number of actions that have been identified to take forward that will improve the level of mitigations in place with the aim of reducing the likelihood, impact and the risk score.

The benefits of successful risk management are in improved financial performance, better delivery of services, improved Fund governance and compliance.

Business Continuity Plan

Services develop and maintain Business Continuity Plans, which deal with "disaster recovery" and include contingency measures. The Exchequer & Transactional Services Business Continuity Plan which includes support services for the payment of pensions identifies critical activities whose failure would lead to an unacceptable loss of service, and sets out measures to minimise the risk and disruption to service.

FINANCIAL PERFORMANCE

The Pensions Committee is supported by the Administering Authority's Finance and Administration services and the associated costs are therefore reimbursed to the Administering Authority by the Fund. The costs for these services form part of the Administrative and Investment Management expenses as reported in the Pension Fund Statement of Accounts. Estimates for the medium term on Administration and Investment Management expenses follow in this report.

The Pensions Administration service consists of an establishment of 9.1 full time equivalent posts.

The Finance service that supports the pension fund consists of an establishment of 2 full time equivalent posts (all in post).

In June 2014 the Chartered Institute of Public Finance and Accountancy (CIPFA) produced guidance on how to account for Management costs in order that improvements in cost comparisons can be made across all funds. Therefore Management costs have now been split to introduce a third category of costs. The tables that follow have now been reanalysed to include the three categories of costs as defined by CIPFA:

Administrative Expenses

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

	2014/15 Actual £000	2015/16 Estimate £000	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Administration & Processing	411	356	429	430	430	430
Other Fees	7	6	6	6	6	6
Other Costs	32	32	77	80	80	80
TOTAL	**450**	**394**	**512**	**516**	**516**	**516**

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. The 2014/15 figure has been restated to reflect adoption of CIPFA's Guidance on Management costs.

	2014/15 Actual (restated) £000	2015/16 Estimate £000	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Fund Manager Fees	2,571	900	2,743	2,700	2,700	2,700
Custodian Fees	34	35	40	40	40	40
Performance Measurement services	13	13	13	13	13	13
TOTAL	**2,618**	**948**	**2,796**	**2,753**	**2,753**	**2,753**

Governance and Oversight

These costs include all costs that fall outside of the other 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.

	2014/15 Actual £000	2015/16 Estimate £000	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Financial Services	142	142	142	142	142	142
Actuarial Fees	28	28	35	50	30	30
Audit Fees	20	20	21	21	21	21
Member Training	2	0	0	10	10	10
Adviser Fees	61	50	50	50	50	50
CIV/SAB Levy	-	-	76	30	30	30
Local Pension Board	13	13	11	15	15	15
Pensions Committee	-	-	20	20	20	20
TOTAL	**266**	**253**	**355**	**338**	**318**	**318**

OVERALL MANAGEMENT TOTAL	**3,334**	**1,595**	**3,663**	**3,607**	**3,587**	**3,587**

Please note the following regarding the above figures

- Takes no account of any inflationary increases
- Management and custody fees are charged according to the fund value; therefore an average figure has been applied for 2016/17 onwards.

- Based on 2015/16 fund and staffing structures.
- Member Training will be shared between the Pensions Committee and the Local Pension Board.

Cash Flow Management

Cash flow management is an essential part of the administration of the pension scheme as the Fund has to meet its on-going benefit payments. The Fund provides benefits for employees, which include retirement pensions, death grants and other lump sum payments.

These benefit payments can be split between the more **predictable payments**, such as monthly pension payroll or the more **unpredictable** payments such as transfer value payments, retirement lump sums or death benefits.

Income received by the Fund can be split between the more **predictable income** such as employer and employee contributions and the more **unpredictable income** such as Transfers In from other pension schemes and additional contributions from Havering council.

The working cash balance is reviewed monthly and cash flow projections are carried out up to the end of 31 March. The cash balance is maintained so that it is not so large as to reduce the potential for future investment returns and not so small so as to create the risk that the balance will be easily exhausted and thus require disinvestments to be made frequently or at short notice.

The table below shows the cash balances split between predictable and unpredictable income and payments:

2014/15 Income	2014/15 Benefit Payments	Net		2015/16 Income	2015/16 Benefit Payments	Net
(32.9)	29.4	(3.5)	Predictable	(33.1)	29.4	(3.7)
(6.0)	7.6	1.6	Unpredictable	(10.4)	8.8	(1.6)
(38.9)	**37.0**	**(1.9)**	**Total**	**(43.5)**	**38.2**	**(5.3)**
		(5.7)	Balance b/f			(7.6)
		(7.6)	**Total Cash Balance**			**(12.9)**

The cash flow policy adopted by the Pension Fund sets out that should the cash level fall below the set de minimis then this should be topped up in the first instance by using investment income. In the event that cash levels rise above the set upper limit, cash will be invested in the most underweight asset allocation within the investment strategy. When the cash flow policy was revised in December 2015 a discretion was introduced that allows the Chief executive to exceed the thresholds to meet unforeseeable volatile unpredicted payments (e.g. impact on the Pension Fund for restructures)

The Fund's Actuary is required to report on the "solvency" of the whole Fund in a valuation which is carried out at least once every three years. As part of this valuation, the Actuary will calculate the solvency position of the whole Fund and for each employer. Therefore the Fund does not use separate forecasts for cash flows and asset values over the three year future cycles as assumptions made about the factors affecting the Fund's finances in the future (e.g. asset values and cash flows) are included in the valuation report. Cash flow and asset values are monitored regularly and reported quarterly to the Pensions Committee.

Details about the financial assumptions used by the Actuary can be found within the Valuation Report 2013, which is available on the Authority's website and can be found by selecting the link to the Havering Pension Fund here.

Monitoring of pension overpayments, recoveries and amounts written off, including the results of participation in the biennial National Fraud Initiative, is being regularly reviewed.

Invoices raised, and amounts recovered, since 2011/12 relating to recoverable overpayments of pension to deceased and child members of the scheme are set out in the table below.

Year debt raised	Amount of debt raised £	Debt collected £	Debt outstanding £
2011/12	12,659	9,575	3,084
2012/13	8,927	6,837	2,090
2013/14	5,211	1,946	3,265
2014/15	9,901	4,958	4,943
2015/16	10,384	6,195	3,803

The Authority has always subscribed to the National Fraud Initiative (NFI). For pensions this involves identifying any deceased members of the LGPS and any pension abatements not already known to the Pensions Administration Team. The last exercise to provide the base data to NFI took place in November 2014 and the next one is due November 2016.

The total value of employer contributions to the fund was £34,045,904 and employee contributions were £7,019,383 making a total of £41,065,287, 99.86% of these were paid on or before the due date. The monitoring of the payment of contributions identified 5 external payments out of 216 (18 employers X 12 monthly payments) were late, by 4 employers. The value of the late contributions amounts to £58,206 which in percentage terms was 0.14% of the total fund contributions. Interest was not charged for the late payments as the cost of levying the charge outweighs the amount of interest that would have been due to the fund, which at 1% above base rate amounted to less than £25.

ADMINISTRATIVE MANAGEMENT PERFORMANCE

Pension Services Local Performance Indicators 2015/16

INDICATOR	What is it an indicator of?	Actual 2015/16	Target 2015/16	Actual 2014/15	Actual 2013/14
The percentage of retirements processed within 5 working days	The percentage of retirement payments processed within 5 working days of the employee retiring or receipt of all relevant information. This indicator measures effectiveness through service delivery and is a standard throughout Local Government	86.4%	95%	80.1%	86.4%
The percentage of early retirement estimates processed within 10 working days	To produce estimates for early retirements i.e. ill health, redundancies and voluntary retirements within 10 working days of request, normal retirement date or receipt of all relevant information. This indicator is particularly important to service clusters	65.3%	91%	72.8%	83.9%
The percentage of notification of deferred benefits within 15 working days	To notify members who have left their job (or one of their jobs) of the deferred benefits that they have accrued at the point of leaving within 15 days of all relevant information.	72.9%	60%	20.2%	63.4%
The percentage of 'Transfers In' actuals processed within 15 working days.	The percentage of transfers in with the member's record updated with the transferred in information	14.3%	80%	13.0%	37.0%
The percentage of 'Transfers Out' actuals processed within 15 working days	The percentage of transfers out paid to the new pension provider	24.1%	80%	54.8%	83.9%
The percentage of 'death' notifications written out to within 5 days of receipt of all information received.	The percentage of deaths with notification of benefits	83.9%	95%	57.3%	67.7%
The percentage of joiners processed within 10 working days of information received	The percentage of joiners' records set up on the Pensions Administration System	89.5%	70%	71.5%	64.6%

The Pension Service Local Performance Indicators represent the main core of the benefits team output but do not cover all the calculations and processes carried out by this team. The performance of the benefit team has been impacted by the resignation of a full time experienced pension officer in June 2015. The post remains vacant, but has been covered by temporary agency staff since 4 January 2016.

The indicators do not include a substantial amount of the work carried out by the record maintenance team who effectively manage the quality of the data held, which has a direct impact upon the triennial valuation.

Changes to legislation required Annual Benefit Statements to be sent to active scheme members by 31/08/2015. This was extremely challenging for the team as approved layouts and software to produce the statements were not available until the last minute. Additionally, key data from the fund's largest employer was not available due to a change of payroll system. The record maintenance team successfully met the deadline for all active members where the data had been provided by the scheme employer. This equated to 96.2% of active members receiving their ABS by 31/08/2015 and a further 2.4% of active members being provided with an ABS on receipt of information from their employer by the Pension Regulator's extended deadline of 30/11/2015. Deferred benefit statements were also sent out to deferred scheme members.

Performance levels this year have been impacted by the loss of an experienced senior member of the team and have struggled to recruit to this role. The new scheme continues to impact on the targets due to increased protections afforded to members of the scheme along with government legislation changes, such as, decreased limits to annual and lifetime allowance requiring an increase in record monitoring.

When system upgrades for amendments to regulations are installed, this does not always address the initial requirements therefore manual calculations are still required for transfers, which is impacting targets. The percentage performance data does not give a true reflection of the overall performance of the team and there have been no IDRP or general customer complaints.

There have been adhoc issues with the availability of the Pension Software system and hosting issues during the year. However, due to constant changes to guidance and legislation of the 2014 CARE scheme the system is still unable to fully comply with the changes. Catch up releases and patch fixes have been rolled out to resolve system errors. Also due to hosting arrangements for Altair, via the internet, it is vital the Council's networks are stable, which over the past year they have experienced some issues.

Additional priorities which impacted on the workload and performance for the team during this year included:

- Developing and testing interfaces for the new One Oracle Council Enterprise Resource Planning (ERP) system
- Provision of first active benefit statement to incorporate CARE and Final Salary Benefits
- Robust testing of the Pension administration software, resulting in high volumes of manual calculations due to the implementation of the new CARE Scheme 2014.
- Employer and scheme member presentations to support the introduction for the new CARE Scheme
- Employer meetings and workshops on new data requirement and employer responsibilities
- Review of processes and all documentation to be compliant with the new scheme and overriding legislation
- Increase in Employers and the need to support them
- Increasing demands for specialist advice to support the ever changing way in which the authority delivers its key services for example partnership working and TUPE regulations
- The resignation of an experience Senior Transactional Agent during the year, therefore impacting the workload of the rest of the Benefits Team.

Over the past 5 years trends on the key activities within the administration team are detailed below. There was a peak in the volume of work in 2013/14 due to the introduction of Automatic Enrolment, which did not reduce dramatically for 2014/15 onwards.

Service Item	2011/12 Cases	2012/13 Cases	2013/14 Cases	2014/15 Cases	2015/16 Cases
Retirements processed	293	273	315	261	279
Early retirement estimates processed	635	660	657	725	827
Notification of Deferred Benefits	172	653	538	243	351
Transfers In Actuals processed	60	65	54	54	35
Transfers Out Actuals processed	42	32	31	31	29
Death notification written out	93	152	158	178	224

Service Item (continued)	2011/12 Cases	2012/13 Cases	2013/14 Cases	2014/15 Cases	2015/16 Cases
New LGPS joiners processed	522	743	1,234	1,173	1,004
Refunds	48	15	29	99	148
TV Out & Inter Fund Adjustment (IFA) Quote	58	63	69	75	98
TV In & IFA Quote	86	80	70	108	254
Total Cases per year	**2,009**	**2,736**	**3,155**	**2,947**	**3,249**

Staff Resource

The Pensions Administration Team is part of oneSource Exchequer and Transactional Services and is split between two teams, the Benefits Team and the Member Record Maintenance Team. An experienced full time member of the benefits team left the authority in June 2015 and this has impacted the performance of the team.

The team currently consists of 9.11 FTE of which 8.45 FTE is resourced. The roles are as follows:

Job Title	Number of FTE	Number of filled FTE
Specialist Transactional Team Lead	1	1
Senior Specialist Transactional Agent	3.67	3.67 (inc.1 agency)
Specialist Transactional Agent	0.44	0
Specialist Transactional Support Agent	1	1
Specialist Transactional Support Assistant	3	2.78 (inc.1 agency)

The Benefits team consists of 3 FTE Senior Transactional Agents, 0.44 FTE Specialist Transactional Agent (vacant post) and 0.5 FTE of the Specialist Transactional Support Agent.

The Member Record Maintenance Team consists of 0.67 FTE Senior Transactional Agent, 0.5 FTE Specialist Transactional Support Agent and 2.78 FTE Specialist Transactional Support Assistants (0.22 vacant posts). The Senior Transactional Agent has been supporting the development and testing of One Oracle interfaces.

These two teams are managed by the Specialist Transactional Team Lead. We also have a Pensions Project Manager who works outside of the administration team concentrating on specialist projects and is working in partnership with London Borough of Newham.

As there are two areas administering the scheme we do not monitor the average cases per member of staff or staff to fund member ratios.

Pensions Administration has not participated in the CIPFA Benchmarking Club this year.

Local Government Funding Cuts

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

- High demand from employees for information and guidance in respect of their pension benefits should they decide to retire earlier than they initially planned or be made redundant.
- High demand from service areas for Redundancy and Early Retirement Estimates as well as guidance in the options available.

The Authority continues to look at different ways of delivering services which impacts upon the Pension Team. Demand for pension guidance for managers and employees working in areas that may be subject to change continues to escalate.

Academies and Outsourcing

The pace of conversion of schools to Academies slowed down during 2015/16 but is due to escalate as a result of the Government's announcement around its desire for all schools to become Academies. Academies need continual support and monitoring.

Outsourcing continues to add further demand on Pension Team resources and is an area not captured by performance indicators as it does not deliver a tangible, quantifiable benefit. The level of planned and actual outsourcing by Academies is still on-going and seems likely to continue to grow. This adds to the work of the Pension Team who provides the necessary data for the Actuaries to calculate Bonds and employers' rates. If the outsourced function is granted Admitted Body Status this drives further unplanned work to separate out the scheme employers and causes a further administrative burden as the number of scheme employers increases.

The growth in Scheduled and Admitted Body scheme employers also increases the support and communications requirements for the team. Introduction meetings are held with all new bodies to support their entry into the scheme with on-going meetings and support as and when required. The extension of scheme employers increases the workload for the production of annual benefit statements and the provision of information for the triennial and individual valuations. During 2015/16 there were 2 Academy conversions.

Should the increase in scheme employers continue to rise the staffing resources of the team will have to be reviewed.

With all the above pressures the Pension Team has been committed to providing a good quality pension service for stakeholders, in particular scheme members. Should the increase in scheme employers continue at the current pace the staffing resources of the team will have to be reviewed.

Fund Membership Data

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

	As at 31 March 2016	As at 31 March 2015	As at 31 March 2014	As at 31 March 2013	As at 31 March 2012
Contributors	6,526	6,484	6,206	5,755	5,878
Deferred pensioners	5,709	5,224	4,874	4,702	4,405
Pensioners and Dependants	5,884	5,779	5,641	5,453	5,253
	18,119	**17,487**	**16,721**	**15,910**	**15,536**

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

	As at 31 March 2016	As at 31 March 2015	As at 31 March 2014	As at 31 March 2013	As at 31 March 2012
Ill Health	11	15	13	14	16
Early Retirements	0	0	0	0	0

The age profile of members within five year bandings for the year ended 31 March 2016 is as follows:

AGE BANDS	ACTIVES	DEFERREDS	PENSIONERS (OWN RIGHT)	DEPENDANT PENSIONS	TOTAL BY AGE BAND
0-4	0	0	0	2	**2**
5-9	0	0	0	3	**3**
10-14	0	0	0	9	**9**
15-19	38	3	0	19	**60**
20-24	197	80	0	9	**286**
25-29	323	305	0	1	**629**
30-34	403	426	0	0	**829**
35-39	554	491	0	1	**1,046**
40-44	877	753	3	11	**1,644**
45-49	1,153	1,105	7	10	**2,275**
50-54	1,287	1,227	23	11	**2,548**
55-59	1,016	1,006	152	36	**2,210**
60-64	531	284	860	43	**1,718**
65-69	127	24	1,321	81	**1,553**
70-74	20	5	986	112	**1,123**
75-79	0	0	662	133	**795**
80-84	0	0	520	175	**695**
85-89	0	0	320	135	**455**
90-94	0	0	123	78	**201**
95-99	0	0	21	13	**34**
100-104	0	0	2	2	**4**
TOTAL	**6,526**	**5,709**	**5,000**	**884**	**18,119**

Contributions to the Fund

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

With effect from 1st April 2008 instead of paying a standard contribution rate, as mentioned above, different contribution rates for different pay bands were introduced. These new rates have been designed to give more equality between the cost and benefits of scheme membership and are dependent on which pay band the member falls into. The employee contribution rates for 2015/16 range from 5.5% to12.5% of pensionable pay.

The London Borough of Havering as a scheme employer review LGPS bandings on an annual basis each April, therefore promotions and demotions do not affect contribution rates until the following year.

The Authority is required to make balancing contributions as determined by the Fund's actuary to maintain the solvency of the Fund. The employer's contribution for the London Borough of Havering employees was 22% of salary in 2015/16 (2014/15 22%). The Authority's annual contribution is reviewed every three years. The valuation based on data as at 31st March 2013 set employer contribution rates for 2014/15, 2015/16 and 2016/17.

In 2015/16 the contribution rates due from the other employers in the Havering Pension Fund range from 17.3% to 28.8%, including payments of past service contributions.

The payment of contributions by employers with external payrolls is monitored on a monthly basis by Pensions Administration. The Authority receives a breakdown of individual employee contributions which is reconciled against the payments.

All new employers are given instruction and written guidance in the requirements of the Pension Administration team for making payments, timescales for payments and the reminder process in place. In advance of admittance to the scheme all new employers are informed of the employer contribution rates applicable and the required bond levels.

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

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

Contributing employers	Active Members	Contributions from Members £	Contributions from Employers £
London Borough Havering (including schools – non teaching staff only)	4,845	5,478,813	28,123,754
SCHEDULED BODY:			
Havering College of Further & Higher Education	301	358,519	1,330,083
Havering Sixth Form College	99	117,568	353,673
Drapers Academy	45	54,252	178,733
Abbs Cross Academy and Arts College	49	50,019	196,039
Coopers' Company & Coborn School	50	66,076	280,025
The Brittons Academy Trust	85	72,925	311,713
Sacred Heart of Mary Girls' School	49	33,907	166,390
The Campion School	90	65,814	255,983
Hall Mead School	97	67,574	284,373
St Edward's Church of England School & Sixth Form	66	68,626	252,997
Emerson Park Academy	59	53,711	212,557
Redden Court School	62	54,502	223,190
The Albany School	53	45,252	188,500
The Chafford School	40	48,781	184,439
The Frances Bardsley Academy for Girls	65	56,918	221,642
Upminster Infant School	22	9,207	43,883
Upminster Junior Academy	28	16,266	67,674
Bower Park Academy	42	42,800	171,335
Langtons Junior Academy	25	10,994	50,139
Oasis Academy Pinewood	42	18,956	65,837
Drapers Brookside Junior School	24	13,652	62,420
Rise Park Infant School	30	12,655	58,709
Rise Park Junior School	26	14,583	52,547
Prygo Priory Primary School	62	30,607	123,941
Elutec College of Design & Engineering	18	8,325	28,622
Dycorts	37	18,174	68,897

Contributing employers	Active Members	Contributions from Members £	Contributions from Employers £
Drapers Maylands	4	1,986	7,005
Scheduled Body Total	**1,570**	**1,412,649**	**5,441,346**
ADMITTED BODIES:			
Sports & Leisure Management – Charitable Trust	50	55,471	147,832
Sports & Leisure Management – Fitness and Health	5	4,040	11,104
Citizens Advice Bureau	ceased	2,000	65,710
KGB Cleaners	ceased	146	588
Family Mosaic	41	36,175	150,652
Breyer Group Voids	2	6,078	18,674
Breyer Group Repairs	8	22,434	78,949
Caterlink	5	1,578	7,295
Admitted Bodies Total	**111**	**127,922**	**480,804**
TOTAL	**6,526**	**7,019,384**	**34,045,904**

Investment Policy and Performance Report

INVESTMENT POLICY

The overall direction of the Fund's Investment Strategy is delegated to the Authority's Pensions Committee. The Pensions Committee also oversees the Fund's investment arrangements and publishes a Statement of Investment Principles (SIP) on the Authority's website in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2005.

The Authority has in place an Investment Strategy, which consists of a document split into two sections – The Statement of Investment Principles and the Myners Compliance Statement.

Statement of Investment Principles - This Statement sets out the Authority's policy on a range of matters relating to investments, including the Fund's responsible investment policies and any environmental, social and governance issues and management of the Pension Fund. This is produced in conjunction with the Fund's investment advisors. The Fund does not place restrictions on any particular types of investments. Over the longer term, the Pensions Committee requires the Investment Manager(s) to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. Beyond this, the Investment Manager(s) has full discretion with the day to day decision making.

Myners - In line with regulations the Authority, as an Administration Authority, also publishes a statement which shows the extent to which it complies with guidance as issued by the Secretary of State. Where it does not comply, reasons for non-compliance must be disclosed. This is known as the Myners Principles and is published together with the SIP.

A copy of the SIP and compliance against the Myners Principles can be found in the appendices attached to this report.

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

The movement in the asset allocations since the last annual report is shown in the table below.

Asset Class	Target Allocation as per SIP Nov 2015 %	Actual Asset Allocation March 2015 %	Actual Asset Allocation March 2016 %	Actual March 2016 Asset Allocation vs Target Allocation %
Equities	25	27.4	27.2	2.2
Investment Grade Bonds – Active	17	20.9	21.3	4.3
Property – Active	5	4.6	5.9	0.9
Absolute Return Multi Asset (All classes) – Active	15	12.7	12.4	-2.6
Multi Asset Strategies	35	31.1	30.0	-5.0
Infrastructure	3	0.0	0.0	-3.0
Cash	0	3.3	3.2	3.2
Total	**100**	**100**	**100**	**0**

In line with the Statement of Investment Principles, when the Fund allocation deviates by 5% or more from the strategic allocation, the assets will be rebalanced back to within 2.5% of the strategic asset allocation. In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Committee may decide to suspend rebalancing temporarily. Significant changes in the year were as follows:

- Additional contributions were made to the Fund in March 2014 which will fund a Local Infrastructure project once a scheme has been identified. A scheme has yet to be identified so the cash is still being invested in the State Street Liquidity fund.
- In June 2016 Members agreed to increase the holdings in passive equities by reducing the holdings in Multi Assert strategies. They also agreed to adopt the FTSE RAFI 3000 index for 50% of the passive equity allocation.
- The Havering Pension Fund joined the London Collective Investment Vehicle (LCIV) in September 2015. One of the Funds existing Multi Asset Strategy managers were appointed by the LCIV and in February 2016 the Havering Pension Fund transitioned its holding with this manager to the LCIV.

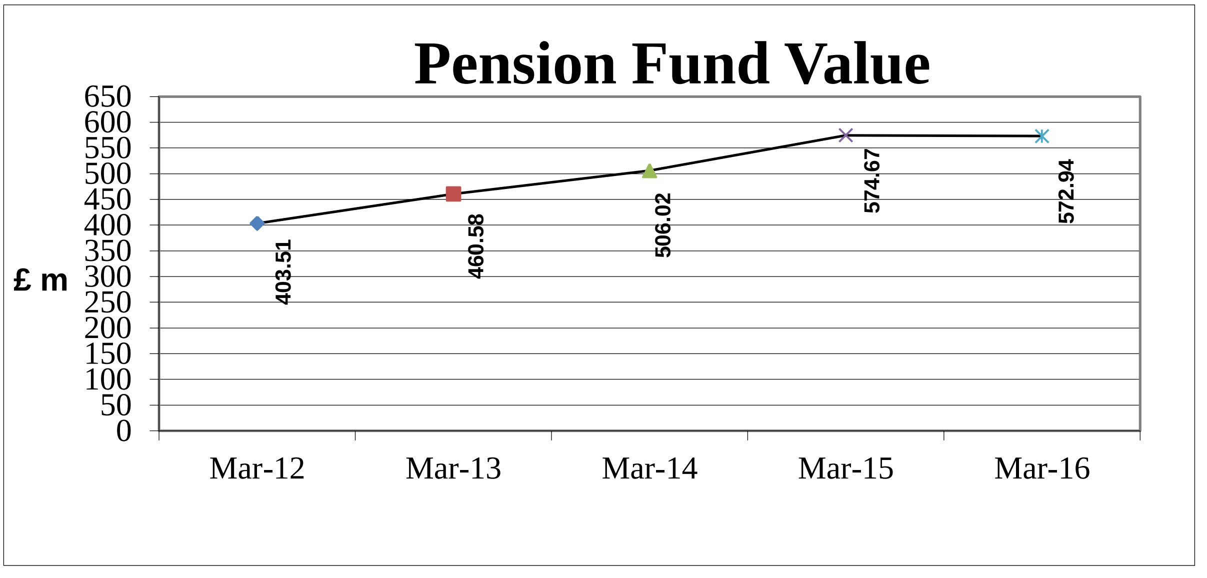
INVESTMENT PERFORMANCE

The Fund is invested in shares issued by companies listed on the stock exchange and on foreign exchanges and also in bonds, property funds and in cash.

The Net Assets of the Fund has reduced to **£573m** for 2015/16 from £575m in 2014/15, a net decrease of **(£2m)**.

The net decrease of **(£2m)** is compiled of a change in the market value of assets of (£8m), investment income of £5m, net additions of cash of £5m and offset by management expenses of (£4m). Further details are included within the Fund Account and Net Asset Statement included in this report.

The chart below shows the Fund value over the last five years



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

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

The strategic benchmark for the overall fund is a liability benchmark of FTSE A Gilts over 15 years plus 1.8% (net of fees) p.a. (This is the rate used in the valuation of the Fund's liabilities).

The main factor in meeting the strategic benchmark is market performance. The main factor in meeting the tactical benchmark is fund manager performance.

In 2015/16, the overall return on the Fund's investments was **-1.2%** (2014/15 13.2%). This represented an under performance of **-2.8%** against the tactical benchmark (2014/15 outperformance of 1.7%) and an under performance of **-7.7%** against the strategic benchmark (2014/15 under performance of -12.9%).

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

	1 year to 31.03.15 %	1 year to 31.03.16 %	3 Years to 31.03.16 %	5 years to 31.03.16 %
Fund Return	13.2	-1.2	6.1	7.3
Tactical Benchmark	11.3	1.7	5.9	7.0
Performance	1.7	-2.8	0.3	0.4
Fund Return	13.2	-1.2	6.1	7.3
Strategic Benchmark	29.9	7.1	11.6	14.2
Performance	-12.9	-7.7	-4.9	-6.0

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

A **strategic benchmark** has been adopted for the overall Fund of Gilts + 1.8% (net of fees) 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 Fund's deficit. This current shortfall is driven by the historically low level of interest rates which drive up the value of Gilts (and consequently the level of the Fund liabilities). Whether interest rates will remain at those levels for the longer term and the implications for the Fund's Investment Strategy is a matter which will need to be considered at the time of the next actuarial review.

Our Investment Advisers have stated that there are things that could have been done to protect the Fund against falling interest rates (e.g. hedging) but they do not believe that this action would have been appropriate. The Fund is already partially protected through its investments with Royal London and given the long term nature of the Fund they believe that the Fund objective of pursuing a stable investment return remains appropriate. They also note that although the value placed on the liabilities has risen as a result of falling yields, inflation and expectations of future inflation have fallen meaning that the actual benefit cash flows expected to be paid from the Fund will be lower.

Where appropriate, Fund Managers have been set a specific (tactical) benchmark as well as an outperformance target against which their performance is measured.

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

Asset Class	Target allocation	Investment Manager/ product	Segregated/ pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	12.5%	Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	6.25%	State Street Global Asset	Pooled	Passive	FTSE All World Equity Index
	6.25%	State Street Global Asset	Pooled	Passive	FTSE RAFI All World 3000 Index
Multi Asset Strategy	15%	Baillie Gifford (Diversified Growth Fund)	Pooled	Active	UK Base Rate plus 3.5%
	20%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5%
Absolute Return	15%	Ruffer	Segregated	Active	LIBOR+
Property	5%	UBS	Pooled	Active	IPD All balanced (property) Fund's median +
Gilt/Investment Bonds	17%	Royal London	Segregated	Active	• 50% iBoxx £ non- Gilt over 10 years • 16.7% FTSE Actuaries UK gilt

Asset Class	Target allocation	Investment Manager/ product	Segregated/ pooled	Active/ Passive	Benchmark and Target
					over 15 years • 33.3% FTSE Actuaries Index-linked over 5 years. Plus 1.25%*
Infrastructure	3%	State Street Global Assets –Sterling liquidity Fund Cash is invested pending identification of a local infrastructure project.			

*0.75% prior to 1 November 2015

The following table compares each Fund Manager performance against their benchmark and their performance target for the twelve months ending 31 March 2016:

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark
Royal London	1.4	1.0	**0.4**
UBS	11.6	11.2	**0.4**
Ruffer	-3.5	0.6	**-4.1**
SSgA Global Equity	-0.5	-0.6	**0.0**
SSgA Sterling Liquidity Fund	0.5	0.4	**0.1**
Baillie Gifford (Global Alpha Fund)	0.1	-0.6	**0.70**
London CIV/ Baillie Gifford (DGF)	-1.4	4.0	**-5.2**
GMO (GRRUF)	-5.6	0.1	**-5.7**

Source: WM Company, Fund Managers and Hymans

- SSGA performance is not shown as they were not invested for entire period.
- Totals may not sum due to geometric basis of calculation and rounding.

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

WM also produces performance summaries for the Local Authority Universe that comprises of 88 LGPS pension funds.

The average return (gross of fees) over the 12 months to 31 March 2016 for the WM Local Authority universe was 0.2% (2014/15 12.2%). The Havering Pension Fund was at the 75th percentile in 2015/16 (2014/15 46th).

WM data	2015/16	2014/15	2013/14	2012/13	3yrs % pa	5yrs % pa	10yrs % pa
Fund Return	-1.0	13.2	7.0	14.6	6.3	7.5	4.9
Benchmark (WM Universe)	**0.2**	**12.9**	**6.4**	**13.8**	**6.4**	**7.1**	**5.6**
Relative Return	-1.2	0.3	0.6	0.7	-0.1	0.4	-0.7
WM Ranking	75	46	35	32	56	33	73

Asset Allocation

The Fund Managers and the market value of assets under their management at 31 March 2016 were as follows:

Manager	Mandate	Value £000	Proportion of Total Fund %
Royal London	Active Investment Grade Bonds	121,510	21.7
UBS	Active Property	33,942	6.1
Ruffer	Multi Asset Absolute Return	71,006	12.7
State Street Global Assets	Passive UK/Global Equities	72,130	12.9
State Street Global Assets	Sterling Liquidity Fund	6,239	1.1
Baillie Gifford	Pooled Global Equities	83,794	14.9
London/CIV Baillie Gifford DGF	Multi Asset	75,874	13.5
GMO	Multi Asset	96,197	17.1
	Other	23	0.0
	Total Fund	**560,715**	**100.0**

Largest 10 Direct Asset Holdings of the Total Fund Value:

Holdings	Market Value at 31 March 2016 £m	Proportion of the total investment of the fund %
Royal London Pooled Bonds	9.28	1.66
Cash – foreign currency	6.29	1.12
State Street Sterling Liquidity Cash Fund	6.24	1.11
UK Treasury Index Linked Bond 0.5% - matures 2050	5.55	0.99
UK Treasury Index Linked Bond 0.625% - matures 2040	4.18	0.75
UK Treasury 0.125% – matures 2024	3.97	0.71
UK Treasury Index linked Bond 3.5% – matures 2068	3.89	0.69
UK Treasury 0.25% - matures 2052	3.75	0.67
Ruffer Illiquid Multi Strategies Fund	3.71	0.66
UK Treasury Index Linked Bond 0.125% - matures 2019	3.33	0.59
Total	**50.19**	**8.95**

In addition to the above holdings the Fund also invests in a number of pooled mandates, the largest as follows:

Holdings	Market Value at 31 March 2016 £m	Proportion of the total investment of the fund %
GMO – Global Real Return (UCITS) Fund	96.20	17.16
Baillie Gifford Global Equities	83.79	14.94
Baillie Gifford Diversified Growth Fund	75.72	13.50
State Street Passive Equities	72.13	12.86
UBS Pooled Property	33.45	5.97
Total	**361.29**	**64.43**

Funding Strategy Statement (FSS) - The Authority also has in place a Funding Strategy Statement (FSS) which was reviewed during 2013/14. The FSS is reviewed in detail at least every three years as part of the Fund's triennial valuation. This statement was reviewed during the revaluation process which commenced using data as at 31 March 2013 and the results published by no later than 31 March 2014.

The FSS was prepared by the Administration Authority in collaboration with the Fund's Actuary, Hymans Robertson and after consultation with the Fund's employers. The draft version of the Funding Strategy Statement was distributed to all participating employers and the consultation ended on 25 March 2014.

The FSS sets out the objectives of the London Borough of Havering Pension Fund's funding strategy and includes a summary of the Fund's approach to funding its liabilities and is effective from **1 April 2014**.

As part of the application of the FSS the Havering Pension Fund holds insurance bonds to guard against the possibility of admitted bodies not being unable to meet their pension obligations. These bonds total £4.2m and are drawn down in favour of the Pension Fund and payment will only be triggered in the event of employer default. Five admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.7m.

The Pensions Project Manager, in collaboration with the Fund's Actuary has produced a draft Admissions Policy. The Admissions Policy covers acceptance, on-going treatment and cessation of admitted bodies. This is to ensure that a considered and consistent approach to the admission of new employers to the Fund can be followed. This draft policy has been completed and is awaiting clearance from our Internal Legal Section. Following clearance it will be presented to the Pensions Committee for adoption.

Investment Administration and Custody

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

Fund Manager Performance is reported to the Pensions Committee on a quarterly basis. Managers are invited to present at the Pensions Committee meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure are the pooled Managers (SSgA, UBS, Baillie Gifford and GMO) and Ruffer who attend two meetings per year, one with officers and one with the Pensions Committee. However if there are any specific matters of concern to the Committee relating to the Managers' performance, arrangements will be made for additional presentations.

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

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

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

Scheme Administration Report

OVERVIEW

As mentioned in the Financial Performance section, the Scheme is administered by the Administering Authority's Pension Administration Team (as part of oneSource Exchequer and Transactional Services) and Finance (as part of oneSource Finance). The associated costs are therefore reimbursed to the Administering Authority by the Havering Pension Fund. The costs for these services form part of the Administrative and Investment Management expenses as reported in the Pension Fund Statement of Accounts. The data maintained and procedures are subject to internal and external annual audits and no material issues have been identified.

The Authority's Pension Administration section is responsible for all aspects of the Scheduled (including Academies) and Admitted Body scheme membership including payment of benefits, processing joiners and leavers, record amendments, scheme employers' returns, monitoring and administration of the Authority's Additional Voluntary Contributions (AVC) scheme. The Administration section is also responsible for ensuring the governance processes relating to pensions arising from scheme employer TUPE activities are in place, including reporting to Committee.

The key day to day functions of the Pensions Administration Team are:

- Processing new members of the scheme
- Dealing with requests from members who wish to transfer their pension into or out of Havering's Fund
- Administering death benefits for scheme members
- Bringing pensions into payment on retirement or early retirement
- Providing estimates for members/managers
- Assisting members who wish to increase their pension provision through AVCs or APCs (replaces added years and now provides added pension)
- Processing leavers with a refund of contributions or deferred benefits
- Updating the pensions computer system with changes to members' details
- Reviewing and monitoring third tier ill-health retirements
- Monitoring and recording Scheduled and Admitted Body contributions for bodies that do not utilise the Havering payroll
- Utilising information technology to improve service standards and efficiency
- Supporting outsourcing for both the Authority and other Scheduled Employers such as the Academies
- Contributing to national policy formulation on pensions to reflect the Authority's preferred approach
- Bi-annual National Fraud Initiative (NFI) compliance
- Ensuring continual data cleansing in preparation for the next scheme valuation
- Participation in the new scheme governance requirements of The Pension Regulations
- Continually reviewing all processes and procedures for smart working.
- Training and develop staff to meet service and Authority objectives

Key Uses of Technology

The Havering Pension Fund currently uses the ALTAIR hosted pension system. The team are supporting the continued expansion of scheme employers, the preparation for the Single Tier Pension and Guaranteed Minimum Pension review, implementing member self-service, and developing the workflow module, all of which significant impacts upon team resources.

The aspiration of the pension administration team is to implement member self-service together with providing management tools for managing team workflow. The benefits of self service and workflow are that team members will be able to prioritise work to deliver added value and meet performance targets thus saving valuable time from data input.

The Havering Pension Fund has continued to have a joint pension website with the London Borough of Redbridge and London Borough of Newham.

This website holds information on the LGPS including previous newsletters, a scheme guide and various factsheets. A review of functionality of the website has led to website improvements, and work on incorporating member self-service access to members' own pension records will be developed at a later stage. Improvements during this year have included updating the website for the new CARE scheme including pension modellers and links to .GOV.UK regarding the changes to the new single tier state pension. Work continues to develop the website taking on board member's feedback.

Internal Dispute Resolution Procedure (IDRP)

Any internal disputes go firstly to the Authority's Actuaries and then to the Pensions Panel which comprises the Director of Human Resources/Organisational Development, Director of Legal and Governance and the Corporate Finance & Strategy Manager. The Team Leader for Pensions Administration sits on the panel in an advisory role.

There were no cases taken to IDRP in 2015/16.

Whistle Blowing

The Pension Fund complies with the whistle blowing requirements of the Pension Act that came into force on 6 April 2005. It urges anyone to inform the correct authorities of any known wrong doings. The process for reporting breaches of the law to the Pensions Regulator can be found on the Authority's website by selecting the link here Havering Pension Fund.

No breaches were reported during 2015/16.

Actuarial Report

London Borough of Havering Pension Fund ("the Fund")
Actuarial Statement for 2015/16

This statement has been prepared in accordance with Regulations 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). In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

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

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 60% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £461 million, were sufficient to meet 61% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £292 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 valuation report dated 31 March 2014.

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 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.80%	2.30%
Pay increases	3.30%	0.80%
Price inflation/Pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.1 years	24.1 years
Future Pensioners*	24.2 years	26.7 years

*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Havering, the Administering Authority to the Fund.

Experience over the period since April 2013

Real bond yields have fallen placing a higher value on liabilities. The effect of this has been offset by the effect of strong asset returns and deficit contributions. Funding levels are therefore likely to have improved marginally and deficits fallen over the period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Steven Law FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
4 May 2016

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

The Fund's Actuary carried out a triennial valuation based on data as at 31 March 2013. The main purpose of the valuation is to set employer contribution rates for 2014 to 2017 and also to calculate the funding position within the Fund. The valuation prior to this date was undertaken at 31 March 2010.

Details about the financial assumptions used by the Actuary can be found within the Valuation Report 2013, which is available by selecting the link here, Havering Pension Fund.

In accordance with the Fund's Funding Strategy Statement the Actuary also carried out an inter-valuation update. This funding update is provided to illustrate the estimated development of the funding position from 31 March 2013 to 30 September 2014.

Summary

Valuation date	**31 March 2010**	**31 March 2013**	**Estimated Inter - valuation 30 Sept 2014**
Total Liabilities	£589m	£752m	£792m
Market Value of Assets	£361m	£461m	£529m
Surplus/(deficit)	(£228m)	(£291m)	(£263m)
Funding Level	**61.3%**	**61.2%**	**66.8%**

The above table shows that whilst the 2013 funding level has not changed from 2010 the value of the deficit has increased. This is primarily driven by the change in the value of the liabilities which has been calculated on a set of assumptions used by the Fund's Actuary. The asset returns were higher than expected but not enough to offset the growth in liabilities.

As the table shows, as at 30 September 2014, the funding level has increased to 66.8%. This is largely as a result of higher than expected investment returns and an additional cash contribution paid into the Fund by the Authority in March 2014. The funding update does not allow for changes in individual members' data since the 2013 valuation, so the accuracy of this calculation is expected to decline over time as the period since the last valuation increases. The next triennial valuation will be based on data as at 31 March 16 and published in the autumn of 2016.

The Fund monitors each employer's ill health experience on an on-going basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance, the employer will be charged additional contributions.

Employer decisions on the application of discretions can give rise to strain costs being payable by the employer to the Pension Fund. Strain costs are the capitalised financial value of the impact on the Fund when a member draws their pension benefits before their Normal or State Pension Age (for whatever reason). Factors that influence the strain costs are the member's age, length of service, gender and marital status. The impact on the Fund is the loss of future contribution streams from the employee and the member, and paying out benefits earlier than anticipated.

Generally where a strain cost arises due to an employer decision, such as waiving actuarial reductions or sharing the cost of buying additional pension, the strain costs will be met by the employer and not the Pension Fund. This is monitored and reconciled to data issued by the pension administration section to ensure appropriate strain costs are paid into the Fund.

Governance Compliance Statement

Governance Compliance Statement

Under Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 and Regulation 55 of the LGPS Regulations 2013, administering authorities are required to prepare, publish and maintain statements of compliance against a set of best practice principles on scheme governance and stewardship.

Changes to the Local Government Pension Scheme (LGPS) Governance Regulations 2015 required Administering Authorities to establish a Local Pension Board (LPB) by no later than 1 April 2015.

The Governance Compliance Statement, which was amended in November 2015 to reflect the establishment of a LPB, sets out the following:

- Arrangements for delegation of decisions regarding the Fund
- Structure and the role of members for the Pensions Committee and the LPB
- Membership and Representation of the Pensions Committee and the LPB
- Guidance and monitoring, the support and advice available to the Pensions Committee and the LPB
- Reimbursement for the Pensions Committee and the LPB members
- Training
- Frequency of meetings
- Scope, looking beyond pensions administration and understanding the key risks
- Access and Publication of agenda and minutes of all non restricted meetings
- Reviewing and Updating of policies
- Compliance to guidance given by Secretary of State

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

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

The Governance Compliance statement is also available on the Authority's website by selecting the link here Havering Pension Fund

In line with guidance published by the then Shadow Scheme Advisory Board the Local Pension Board will publish its own separate Annual Report, similar in nature to this report as published by the Pensions Committee.

Training and Development

The Pensions Regulator Code of Practice which came into force on 1 April 2015 includes a requirement for members of the Pension Committee/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.

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 Shadow Scheme Advisory Board in January 2015 and states that the Administering Authority should make appropriate training available to assist LPB members in undertaking their role. It was always the plan to adopt a training strategy that will incorporate Pension Committee member training with LPB members to keep officer time and training costs to a minimum.

A joint training strategy has been developed and 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.

The Training Strategy formally sets out the arrangements the London Borough of Havering Pension Fund will take in order to comply with the principles of the CIPFA Code of Practice.

The Pension Committee 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. CIPFA's Knowledge and Skills Framework covers six relevant areas of knowledge for members of decision making bodies, namely:

1. Pensions Legislative and Governance Context.
2. Pensions Accounting and Auditing Standards.
3. Financial Services Procurement and Relationship Management.
4. Investment Performance and Risk Management.
5. Financial Markets and Products Knowledge.
6. Actuarial Methods, Standards and Practices.

Pension Committee and LPB members are expected to achieve a minimum level of training credits and the CIPFA's Knowledge and Skills self-assessment questionnaire is used to record credits attained and identify gaps in the knowledge and skills of the members.

The London Borough of Havering, as an Administering Authority of the LGPS, recognises the importance of ensuring that is has the necessary resources to discharge its pensions administration responsibilities and that all staff and members charged with financial administration, governance and decision making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

It therefore seeks to utilise individuals who are both capable and experienced and it will provide and/or arrange training for staff and members of the pensions decision making and governance bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

As the majority of training and development is cyclical in nature, spanning the four year membership of the committee, the Authority's Constitution recommends that the membership of the committee remains static for the life of the Authority unless exceptional circumstances require a change, for the very reason that Members need to ensure that expertise is developed and maintained within the Committee.

In recognition of the importance of member training in pension matters the Authority's Constitution was amended in March 2012 to reflect that if members do not undertake required training then that member may not partake in the decision making process.

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:

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

Associated training and development will be given when required which will be linked to the Pension Fund meeting cyclical coverage for 2016/17.

Training and development took place during 2015/16 to ensure that Members of the Committee were fully briefed in the decisions they were taking at the time and a log of training and development is maintained and follows this statement.

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

The Fund uses the three day training courses offered by Local Government Employers (LGE) which is specially targeted at elected members with Pension Fund responsibilities. All new members are encouraged and given the opportunity to attend.

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

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

Officer training and personal development is monitored through the Authority's internal appraisal process.

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

PENSIONS COMMITTEE MEMBER TRAINING 2015/16

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
15 April 2015	DG publishing – "Question Time": The future of Local authority Pension Funds	London	KSF 1	Free	Cllr Stephanie Nunn
21 April 2015	GMO Investor Conference	Hilton London Tower Bridge, 5 more London Place	KSF 5	Free	Cllr John Crowder (Chair) Cllr Stephanie Nunn
24 April 2015	Local Government Association – Shadow Scheme Advisory Board event – Update on what the SSAB has been doing since Summer 2013 and priorities for the future	Local Government House, Smith Square, London	KSF 1	Free	Cllr Stephanie Nunn
23 June 2015	Hymans - Investment Strategy Principles and Fundamental Indexation vs. Market Cap	Town Hall - prior to Pensions Committee meeting	KSF 5	Included in investment adviser fees	Cllr John Crowder (Chair) Cllr David Johnson (vice chair) Cllr Melvin Wallace Cllr Roger Westwood Cllr Ray Morgon Cllr Clarence Barrett Cllr Philip Hyde (Observer)

Page 109

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
12 Aug 2015	Officers - Local Pension Board Induction covered: ○ Brief overview of the havering Pension fund ○ How the scheme is funded ○ Governance Structure ○ Key parties in the Fund ○ Investment Monitoring ○ Strategy documents ○ Valuation ○ LPB reporting requirements	Town Hall – Prior to Local Pension Board meeting	KSF 1,2,4,5 & 6	Officer Time	Cllr David Johnson (vice chair) Cllr Stephanie Nunn
22 September 2015	Officers - Pension Fund Accounts Briefing covered: - overview of the Pension Fund Accounts	Town Hall – prior to Pensions Committee meeting	KSF 2	Officer Time	Cllr John Crowder (Chair) Cllr Ray Morgon Cllr Clarence Barrett John Giles
13 October 2015	CIPFA Pensions Network Autumn workshop, covered: ○ National Framework Update ○ Pension fund KPI's ○ Funding the cost of LGPS Administration costs ○ Local Pension Boards – story so far ○ Local Pension Board Regulator update	London -Sponsored by Amundi	KSF 1	Pre-paid space (part of subscription)	Cllr John Crowder (Chair) (limited pre-paid places – offered to chair only)

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
16 October 2015	Local Government Association – Pooled investments	Local Government House, Smith Square, London	KSF 1	Free	Cllr John Crowder (Chair) – chair only invited
19 November 2015	SPS Conferences - Local Authority Pension Fund Investment Strategies covering: ○ Pooling (GMO) ○ Investment collaboration ○ Performance measurement within LGPS (WM) ○ Looking ahead to 2016 actuarial valuation	Le Meridian, London	KSF 4,5 & 6	Free	Cllr Stephanie Nunn
26 November 2015	DG publishing – "Question Time": Collaboration & the London CIV	London	KSF 1	Free	Cllr Stephanie Nunn
6 January 2016	Hymans- Fund's Actuary delivered - TUPE Transfer Training, covered: • What is TUPE • Pension Protection & Regulations • Admission bodies documents & securities • Cessations	Town Hall – prior to Local Pension Board meeting	KSF 6	£3,500	Cllr John Crowder (chair) Cllr Ray Morgon Cllr Stephanie Nunn Cllr Melvin Wallace

Page 110

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
17 March 2016	SPS Conferences - Local Authority Pension Fund Investment Strategies covering: ○ LGPS Pooling update ○ Topical Investment Themes ○ LGPS Funding ○ LGPS Panel Session – Other pension fund priorities	Le Meridian, London	KSF 4,5 & 6	Free	Cllr Stephanie Nunn Cllr David Johnson

Attendance at Pensions Committee meetings:

All of the Pensions Committee agendas and minutes can be found on the Authority's website by selecting the link here [Havering - Committee details - Pensions Committee]

The Committee met a number of times during 2015/16 and the coverage and attendance at those meetings are shown in the following table:

DATE	TOPIC	ATTENDED BY
23 June 2015	• Pension Fund Performance Monitoring for the quarter ending 31 March 2015, received presentations from Multi Asset managers GMO (Global Real Return) and Baillie Gifford (Diversified Growth Fund) and from Baillie Gifford (Global Equity). • Noted the introduction of a Pension fund Risk Register. • Noted the Business Plan/Annual report on the work of the Pensions Committee during 2014/15. • Agreed to the admittance of Caterlink Ltd to the Havering Pension Fund. • Considered changes to the investment strategy - agreed to reduce holdings with the Global Alpha fund to increase holdings in passive equities and the adoption of a fundamental tracking index and agreed to change the outperformance target for the bond mandate. .	Cllr John Crowder (chair) Cllr David Johnson(vice chair) Cllr Roger Westwood Cllr Melvin Wallace Cllr Clarence Barrett Cllr Ray Morgon
22 September 2015	• Pension Fund Performance Monitoring for the quarter ending 30 June 2015, received presentations from Royal London (Bonds Manager) and Ruffer (Multi Asset Manager). • Noted Pension Fund Accounts for the year ending 31 March 2015. • Agreed the Pension Fund Annual Report for the year ending 31 March 2015. • Agreed to adopt the changes made to the Bond Manager Investment Guidelines in light of their previous decision to change the target.	Cllr John Crowder (chair) Cllr David Johnson(vice chair) Cllr Melvin Wallace Cllr Roger Westwood Cllr Clarence Barrett Cllr Ray Morgon Cllr Stephanie Nunn John Giles (UNISON) Heather Foster-Byron (employer representative)
24 November 2015	• Agreed the Communications Strategy for the three year period 2016 to September 2018. • Noted the views of officers on the performance of the Fund's Actuary for the period April 2014 to September 2015. • Noted the views of officers on the performance of the Fund's Custodian for the period October 2014 to September 2015. • Noted the views of officers on the performance of the Fund's Investment Advisor for the period October 2014 to September 2015. • Considered and agreed the changes to the Statement of Investment Principles • Noted the results of the Whistle Blowing Annual review and that no breaches had been reported • Considered and agreed changes as necessary to the Governance Compliance Statement. • Considered and agreed the Havering Pension Fund Training Strategy • Verbal update on DCLG Asset pooling.	Cllr John Crowder (chair) Cllr David Johnson(vice chair) Cllr Melvin Wallace Cllr Roger Westwood Cllr Clarence Barrett Cllr Ray Morgon Cllr Stephanie Nunn John Giles (UNISON) Heather Foster-Byron (employer representative)
15 December 2015	• Pension Fund Performance Monitoring for the quarter ending 30 September 2015, received	Cllr John Crowder (chair) Cllr David Johnson(vice chair)

DATE	TOPIC	ATTENDED BY
	presentations from Baillie Gifford (Global Alpha Fund), (Diversified Growth Fund) and State street Global Assets (UK/Global Passive Manager). • Considered and agreed the revisions to Pension Fund Cash Management Policy • Considered a verbal request from officers regarding a request from UBS (Property manager) to purchase additional units. Hymans was asked to produce a briefing note and circulate to members before approval was given for the further investment to proceed. • Verbal update on DCLG asset pooling Pension Fund Performance Monitoring for the quarter ending 30 September 2014, received presentations from Baillie Gifford (Global Equity Manager) and (Diversified Growth Fund Manager). • Noted the Havering Pension Fund funding update as at 30 September 2014.	Cllr Melvin Wallace Cllr Roger Westwood Cllr Clarence Barrett Cllr Ray Morgon Cllr Stephanie Nunn
15 March 2016	• Pension Fund Performance Monitoring for the quarter ending 31 December 2015, received presentation from Royal London (Bonds Manager), UBS (Property Manager). • Agreed to the admittance of Accent Catering to the Havering Pension Fund	Cllr David Johnson (chair) Cllr Wendy Brice- Thompson (sub for Cllr Crowder) Cllr Melvin Wallace Cllr Roger Westwood Cllr John Mylod (sub for Cllr Nunn) Cllr Ray Morgon Cllr Clarence Barrett John Giles (UNISON) Andy Hampshire (GMB)

The Havering Pension Fund adopts a Business Plan/Report on the work of the Pensions Committee which sets out the work undertaken by the Committee during 2015/16 and the plan of work for the following year (2016/17). This also includes a Training and Development Plan which is linked to the Pension Fund coverage of meetings.

Full coverage of the Pensions Committee work and training plan can be found on the Authority's website by selecting the link here Havering Pension Fund**.**

CONFLICT OF INTEREST

At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. During 2014/15 there were no conflicts of interests declared.

Fund Account, Net Asset Statement

Pension Fund Account for the year ended 31March 2016

2014/15 £000		Notes	2015/16 £000
	Dealings with members, employers and others directly involved in the fund		
35,704	Contributions	7	41,065
1,573	Transfers in from other pension funds	8	1,390
37,277			42,455
(33,499)	Benefits	9	(34,973)
(1,506)	Payments to and on account of leavers	10	(1,982)
(35,005)			(36,955)
2,272			**5,500**
(3,334)	Management expenses	11	**(3,663)**
	Returns on investments		
6,651	Investment income	12	4,796
-	Taxes on Income	13	(25)
63,061	Profit and losses on disposal of investments and changes in the market value of investments	14a	(8,336)
69,712	**Net returns on investments**		**(3,565)**
68,650	**Net increase in the net assets available for benefits during the year**		**(1,728)**
506,019	Opening net assets of the Fund at start of year		574,669
574,669	**Closing net assets of the Fund at end of year**		**572,941**

Net Asset Statement as at 31 March

2014/15 £000		Notes	2015/16 £000
567,999	Investment Assets	14	562,102
(910)	Investment Liabilities	14	(1,387)
8,339	Current Assets	20	13,707
(759)	Current Liabilities	21	(1,481)
574,669	**Net assets of the Fund available to fund benefits at end of the year**		**572,941**

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

1 Description of the Fund

The Havering Pension Fund is part of the Local Government Pension Scheme 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 Deputy Chief Executive Communities and Resources.

The following description of the scheme is a summary only. For more details on the operation of the Pension Fund, reference should be made to the Havering Pension Fund Annual Report 2015/16 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

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 Local government Pension Scheme Regulations 2013 (as amended),
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

The Pension 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, police officers and fire-fighters are not included as they come within other national pension schemes.

The fund is overseen by the Local Pension Board and the London Borough of Havering Pensions Committee, which is a committee of the Havering Council.

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.

During 2015/16 three new employers joined the fund, two ceased and one employer transferred out.

There are 35 employer organisations with active members within the Havering Pension Fund including the Authority. The membership profile is detailed below.

31 March 2015		31 March 2016
35	**Number of employers with active members**	35
	Number of employees in scheme	
4,897	Havering	4,845
1,468	Scheduled bodies	1,570
119	Admitted bodies	111
6,484	**Total**	**6,526**
	Number of pensioners and dependants	
5,432	Havering	5,486
280	Scheduled bodies	320
67	Admitted bodies	78
5,779	**Total**	**5,884**
	Deferred pensioners	
4,465	Havering	4,796
700	Scheduled bodies	846
59	Admitted bodies	67
5,224	**Total**	**5,709**
17,487		**18,119**

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 2016. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2013. Current employer contribution rates range from 17.3% to 28.7% 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, summarised in the following table:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum is paid for each £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

From1 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 adjusted annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirements, disability pensions and death benefits. For more details please refer to the pension website www.yourpension.org.uk.

2 Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2015/16 financial year and its position at year end as at 31 March 2016. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting* in *the United Kingdom* 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

3 Summary of Significant Accounting Policies

Fund Account – revenue recognition

(a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

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.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises.

(b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10)

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 on an accruals basis in accordance with the terms of the transfer agreement.

(c) Investment Income

i) Interest Income

Interest income is recognised in the Fund as it accrues.

ii) Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as an investment asset.

iii) Distribution from Pooled Funds

Distributions from pooled funds are recognised at the date of issue.

iv) Property- Related Income

Property related income consists primarily of rental income and 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 unpaid are disclosed in the Net Assets Statement as current liabilities.

(e) Taxation

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

(f) Management Expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Authority discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs.*

Administrative Expenses

All administrative expenses are accounted for on an accruals basis. The majority of staff costs of the Pensions Administration team have been charged to the scheme. 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 oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight is charged 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.

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

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

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

For officers' time spent on investment management functions a proportion of the relevant officers' salary costs have also been charged to the Fund.

Net Assets Statement

(g) Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined as follows:

(i) Market-Quoted Investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

(ii) Fixed Interest Securities

Fixed interest securities are recorded at net market value based on their current yields.

(iii) Unquoted Investments

The fair value of investments for which market quotations are not readily available is determined as follows:

Investments in private equity funds are valued on the Fund's share of the net assets in the private equity fund.

Investments in pooled property are valued at the net asset value or a single price advised by the manager.

(iv) Pooled Investment Vehicles

Pooled investment vehicles are valued at the closing bid price if both the bid and offer prices are published; or if single priced, at the closing single price.

(h) 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.

(i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities.

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

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

(j) Cash and Cash Equivalents

Cash comprises cash in hand 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.

(k) Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

(l) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (note 19)

(m) Additional Voluntary Contributions

The Havering Pension Fund provides an additional voluntary contributions (AVC) scheme for it members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential and Standard Life as their AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors.

AVC's are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

4. Critical Judgements in Applying Accounting Policies

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates provided to the 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 and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

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 amounts reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net asset statement at 31 March 2016 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results differ from Assumptions	Approximate % Increase to liabilities	Approximate monetary amount £m)
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied	The effects on the 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:		
		• 0.5% decrease in the real discount rate could result in an increase of 10%	10%	97
		• 1 year increase in member life expectancy could result in an increase of 3%	3%	30
		• 0.5% increase in salary increase rate could result in an increase of 3%	3%	30
		• 0.5% increase in the pension increase rate could result in an increase of 7%	7%	66

6. Events after the Reporting Date

None

7. Contributions Receivable

By category

2014/15 £000		2015/16 £000
	Employees contributions	
	Normal:	
5,401	Havering	5,450
1,323	Scheduled Bodies	1,388
152	Admitted Bodies	127
	Additional contributions:	
53	Havering	28
9	Scheduled bodies	25
1	Admitted bodies	1
6,939	**Total Employees' Contribution**	**7,019**
	Employers contributions	
	Normal:	
12,470	Havering	12,681
5,127	Scheduled bodies	5,412
576	Admitted bodies	440
	Deficit funding:	
10,056	Havering	*15,117
	Augmentation	
288	Havering	326
248	Scheduled bodies	29
-	Admitted bodies	41
28,765	**Total Employers Contributions**	**34,046**
35,704	**Total Contributions Receivable**	**41,065**

*The £15.11m deficit funding reflects additional contributions made by the Authority to the Pension Fund. It consists of £6.3m past service contribution and £8.8 in voluntary planned contributions.

By authority

2014/15 £000		2015/16 £000
28,268	Havering	33,602
6,707	Scheduled bodies	6,854
729	Admitted Bodies	609
35,704	**Total Contributions Receivable**	**41,065**

8. Transfers in from Other Pension Funds

1,573	**Individual transfers in from other schemes**	**1,390**

9. Benefits Payable

By category

2014/15 £000		2015/16 £000
	Pensions	
26,137	Havering	26,757
782	Scheduled Bodies	887
482	Admitted Bodies	546
27,401	**Pension Total**	**28,190**
	Commutation and Lump Sum Retirements	
4,997	Havering	5,151
471	Scheduled Bodies	645
208	Admitted Bodies	375
5,676	**Commutation and Lump Sum Retirements Total**	**6,171**
	Lump Sum Death Benefits	
410	Havering	506
85	Scheduled Bodies	106
(73)	Admitted Bodies	-
422	**Lump Sum Death Benefits Total**	**612**
33,499	**Total Benefits Payable**	**34,973**

By authority

2014/15 £000		2015/16 £000
31,544	Havering	32,414
1,338	Scheduled bodies	1,638
617	Admitted Bodies	921
33,499	**Total Benefits Payable**	**34,973**

10. Payments To and On Account of Leavers

2014/15 £000		2015/16 £000
68	Refunds to members leaving service	76
1,438	Individual transfers to other schemes	1,673
0	Group Transfers (Elutec)	233
1,506		**1,982**

At the year end there are potential liabilities of a further £0.8m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions (*See Note 25).

11. Management Expenses

2014/15 £000		2015/16 £000
450	Administrative Costs	512
2,618	Investment Management Expenses	2,796
253	Oversight and Governance Costs	344
13	Local Pension Board	11
3,334		**3,663**

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

The Investment Management Expenses above includes £289k in respect of transaction costs (2014/15 £797k and restated £567k)

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 Note14).

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

12. Investment Income

2014/15 £000		2015/16 £000
754	Equity Dividend	642
*3,918	Fixed Interest Securities	*3,960
1,196	Pooled Property Income	1,145
404	Foreign Exchange Gains/(losses)	(1,398)
47	Interest on Cash Deposits	67
332	Other Income	380
6,651		**4,796**

***** Income includes Index linked Interest of £199k (2014/15 £432k)

13. Taxes on Income

2014/15 £000		2015/16 £000
-	Withholding Tax	(25)
-		**(25)**

14. Analysis of Investments

2014/15 £000		2015/16 £000
	Investment Assets	
	Equities	
3,906	UK Quoted	1,273
20,485	Overseas Quoted	19,114
24,391		**20,387**
	Fixed Interest Securities	
13,913	UK Public Sector	11,827
68,003	UK Private (Corporate)	62,191
-	Overseas Public Sector	-
81,916		**74,018**
	Index-Linked Securities	
49,766	UK Public Sector	52,374
731	UK Private (Corporate)	722
13,094	Overseas Public Sector	13,094
63,591		**66,190**
	Derivative Contracts	
21	Forward Currency Contracts	65
21		**65**
	Pooled Investment Vehicles	
	UK Managed Funds	
360,314	UK Quoted	357,428
19	UK Unquoted	169
318	Overseas	273
550	Property	-
	UK Unit Trust	
26,341	UK Property	33,449
387,542		**391,319**
	Cash Deposits	
9,044	Managers	7,188
9,044		**7,188**
-	Amounts receivable for sales	1,616
1,236	Investment income due	1,155
258	Outstanding Dividend and Recoverable Withholding Tax	164
1,494		**2,935**
567,999	**Total Investment Assets**	**562,102**

Note 14(Cont'd)

2014/15 £000		2015/16 £000
	Investment Liabilities	
	Derivative Contracts	
(550)	Forward FX Contracts	(295)
(355)	Amount payable for purchases	(1,092)
(5)	Investment Income Due	-
(910)	**Total Investment Liabilities**	**(1,387)**
567,089	**Total Net Investments**	**560,715**

14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2016
	£000	£000	£000	£000	£000	£000
Equities	24,391	11,210	(13,925)	(1,289)		20,387
Fixed Interest Securities	81,916	48,854	(53,785)	(2,967)		74,018
Index-linked Securities	63,591	127,502	(126,772)	1,869		66,190
Pooled Investment Vehicles	387,542	128,240	(118,209)	(6,254)		391,319
Derivatives – forward currency contracts	(529)	244,977	(244,977)	299		(230)
Cash Deposits (fund managers)	9,044			1	(1,857)	7,188
	565,955	**560,783**	**(557,668)**	**(8,341)**	**(1,857)**	**558,872**
Other Investment Balances	1,134			5	704	1,843
	567,089	**560,783**	**(557,668)**	**(8,336)**	**(1,153)**	**560,715**

	Market Value at 31 March 2014	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2015
	£000	£000	£000	£000	£000	£000
Equities	24,720	8,136	(11,533)	3,068	-	24,391
Fixed Interest Securities	68,082	30,756	(26,439)	9,517	-	81,916
Index-linked Securities	53,644	185,632	(186,914)	11,229	-	63,591
Pooled Investment Vehicles	347,520	204,674	(204,540)	39,888	-	387,542
Derivatives – forward currency contracts	109	260,038	(260,038)	(638)	-	(529)
Cash Deposits (fund managers)	5,951	-	-	(1)	3,094	9,044
	500,026	**689,236**	**(689,464)**	**63,063**	**3,094**	**565,955**
Other Investment Balances	750	-	-	(2)	386	1,134
	500,776	**689,236**	**(689,464)**	**63,061**	**3,480**	**567,089**

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

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged direc to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amount to £289k, including transition costs (2014/15 £797k and £567k restated). In addition to the transaction costs disclosed abov indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount indirect costs is not separately provided to the scheme.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2016 were as follows:

14b. Investments analysed by Fund Manager

Value 31 March 2015		Manager	Mandate	Value 31 March 2016	
£000	**%**			**£000**	**%**
119,855	21.13	Royal London	Investment Grade Bonds	121,510	21.67
26,671	4.70	UBS	Property	33,942	6.05
72,851	12.85	Ruffer	Absolute Return	71,006	12.66
55,502	9.79	State Street Global Assets	Passive UK/Global Equities	72,130	12.87
11,682	2.06	State Street Global Assets	Sterling Liquidity Fund	6,239	1.11
101,846	17.96	Baillie Gifford	Pooled Global Equities	83,794	14.94
17	-	Barings DAAF	Multi Asset	-	-
76,732	13.53	Baillie Gifford DGF	Multi Asset	-	-
101,882	17.97	GMO	Multi Asset	96,197	17.16
		London CIV	Pooled Global Equities	75,874	13.53
51	0.01	Other		23	0.01
567,089	**100.00**	**Total Fund**		**560,715**	**100.00**

All of the above companies are registered in the United Kingdom

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

Market Value 31 March 2015	% of total fund	Security	Market Value 31 March 2016	% of total fund
£000			**£000**	
101,882	17.73	GMO Global Real Return (UCITS) Fund	96,197	17
101,846	17.72	Baillie Gifford Global Alpha Pension Fund	83,794	15
-	-	London CIV Diversified Growth Fund	75,724	14
55,502	9.66	SSGA MPF All World Equity Index	72,130	13
-	-	UBS Property	33,449	6
76,732	13.35	Baillie Gifford Diversified Growth Fund	-	-

14c. Stock Lending

We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager, State Street Global Assets, who carry out stock lending as part of the Fund's activities. It is not possible to allocate a share of the stock lending activity to individual fund members. The lending programme is managed by State Street Securities Finance (SSSF), a division of State Street's Global Markets area. At present, lending is collateralised by non-cash collateral and marked to market on a daily basis. Revenue generated from securities is allocated 60% to the pooled fund in respect of investors and 40% to State Street, which pays all costs associated with the lending programme.

15. 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 Ruffer. A breakdown of forward contracts held by the Fund as at 31 March 2016 is given below:

Open forward currency contracts

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value (Unrealised Gain) £000	Liability Value (Unrealised Loss) £000
Up to one month	GBP	5,838	JPY	987,454	-	(277)
Up to two months	GBP	17,500	USD	25,062	65	-
Up to three months	GBP	818	EUR	1,053	-	(18
Gross open forward currency contracts at 31 March 2016					**65**	**(295)**
Net forward currency contracts at 31 March 2016					**-**	**(230)**
Prior year comparative						
Gross open forward currency contracts at 31 March 2015					**21**	**(550)**
Net forward currency contracts at 31 March 2015					**-**	**(529)**

16. Financial Instruments

(a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading. No financial assets were reclassified during the accounting period.

31 March 2015				31 March 2016		
Fair value through fund account	**Loans and receivables**	**Financial liabilities at amortised cost**		**Fair value through fund account**	**Loans and receivables**	**Financial liabilities at amortised cost**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial Assets			
24,391	-	-	Equities	20,387	-	-
81,916	-	-	Fixed Interest Securities	74,018	-	-
63,591	-	-	Index linked securities	66,190	-	-
14	-	-	Derivative contracts	65	-	-
361,201	-	-	Pooled investment Vehicles	357,870	-	-
26,341	-	-	Property	33,449	-	-
-	9,044	-	Cash	-	7,187	-
	-		Other Investment Balances	-	2,935	-
-	9,525	-	Debtors	-	13,708	-
557,454	**18,569**	**-**	**Financial Assets Total**	**551,979**	**23,830**	**-**
			Financial Liabilities			
(543)	-	-	Derivative contracts	(295)	-	-
-	-	-	Other Investment Balances	-	-	(1,092)
-	-	(811)	Creditors	-	-	(1,481)
(543)	**-**	**(811)**	**Financial Liabilities Total**	**(295)**		**(2,573)**
556,911	**18,569**	**(811)**	**Grand total**	**551,684**	**23,830**	**(2,573)**
574,669				**572,941**		

16. Financial Instruments

(b) Net Gains and Losses on Financial Instruments

2014/15 £000		**2015/16 £000**
	Financial assets	
63,061	Fair value through fund account	(8,336)
-	Loans and receivables	-
	Financial liabilities	
-	Fair value through fund account	-
-	Loans and receivables	-
63,061	**Total**	**(8,336)**

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

(c) Valuation of financial instruments carried out at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following tables 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 2016	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through fund account	518,361	169	33,449	551,979
Loans and receivables	23,830	-	-	23,830
Total Financial Assets	**542,191**	**169**	**33,449**	**575,809**
Financial Liabilities				
Financial liabilities at fair value through fund account	(295)	-	-	(295)
Financial liabilities at amortised cost	(2,573)	-		(2,573)
Total Financial Liabilities	**(2,868)**	**-**	**-**	**(2,868)**
Net Financial Assets	**539,323**	**169**	**33,449**	**572,941**

Values at 31 March 2015	Quoted Market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial Assets				
Financial assets at fair value through profit and loss	531,112	19	26,341	557,472
Loans and receivables	18,551	-	-	18,551
Total financial Assets	**549,663**	**19**	**26,341**	**576,023**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(543)	-	-	(543)
Financial liabilities at amortised cost	(811)	-	-	(811)
Total Financial Liabilities	**(1,354)**	**-**	**-**	**(1,354)**
Net Financial Assets	**548,309**	**19**	**26,341**	**574,669**

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 Authority 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.

Values at 31 March 2016	Quoted Market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial Assets				
Financial assets at fair value through fund account	518,361	169	33,449	551,979
Loans and receivables	23,830	-	-	23,830
Total Financial Assets	**542,191**	**169**	**33,449**	**575,809**
Financial Liabilities				
Financial liabilities at fair value through fund account	(295)	-	-	(295)
Financial liabilities at amortised cost	(2,573)	-		(2,573)
Total Financial Liabilities	**(2,868)**	**-**	**-**	**(2,868)**
Net Financial Assets	**539,323**	**169**	**33,449**	**572,941**

Values at 31 March 2015	Quoted Market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial Assets				
Financial assets at fair value through profit and loss	531,112	19	26,341	557,472
Loans and receivables	18,551	-	-	18,551
Total financial Assets	**549,663**	**19**	**26,341**	**576,023**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(543)	-	-	(543)
Financial liabilities at amortised cost	(811)	-	-	(811)
Total Financial Liabilities	**(1,354)**	**-**	**-**	**(1,354)**
Net Financial Assets	**548,309**	**19**	**26,341**	**574,669**

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 Authority 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.

Asset Type	31 March 2016 Potential market movements (+/-)	31 March 2015 Potential market movements (+/-)
Global Equities inc. UK	11.30%	-
Fixed Interest Bonds	8.18%	7.74%
Index Linked Bonds	10.82%	11.26%
Global Pooled inc UK	4,78%	9.04%
Property	2.69%	4.86%
Cash	0.01%	0.01%

The potential price changes disclosed above are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend on the Funds asset allocations. The potential volatilities are consistent with a one-standard deviation movement in the value of assets over the last three years. This can be applied to the period end asset mix.

If the market price of the Fund's investments had increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2016 £000	Change %	Value on Increase £000	Value on Decrease £000
Global Equities inc.UK	20,387	11.30%	22,690	18,083
Fixed Interest Bonds	74,018	8.18%	80,073	67,964
Index linked Bonds	66,190	10.82%	73,352	59,028
Global Pooled inc.UK	357,870	4.78%	374,976	340,764
Property	33,449	2.69%	34,349	32,549
Cash	7,187	0.01	7,188	7,186
Total	**559,101**		**592,628**	**525,574**

Asset Type	Value as at 31 March 2015 £000	Change %	Value on Increase £000	Value on Decrease £000
Global Pooled inc.UK	385,592	9.04	420,450	350,734
Fixed Interest Bonds	81,916	7.74	88,256	75,576
Index linked Bonds	63,591	11.26	70,751	56,431
Property	26,341	4.86	27,621	25,061
Cash	9,044	0.01	9,045	9,043
Total	**566,484**		**616,123**	**516,845**

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below.

These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest Rate Risk Sensitivity Analysis

The Pension Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The council 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.

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

Assets exposed to interest rate risk	Value as at 31 March 2016 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	140,208	1,402	141,610	138,806
Cash and Cash Equivalents	7,188	72	7,260	7,116
Total Change in Asset Value	**147,396**	**1,474**	**148,870**	**145,922**

Assets exposed to interest rate risk	Value as at 31 March 2015 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	145,507	1,455	146,962	144,052
Cash and Cash Equivalents	9,044	90	9,134	8,954
Total Change in Asset Value	**154,551**	**1,545**	**156,096**	**153,006**

This 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. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

Currency risk represents the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund, i.e. pounds sterling.

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's performance measurement service it has been determined that a likely volatility associated with foreign exchange rate movements is 7.80% over a rolling 36 month period.

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

A 7.80% 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:

Assets exposed to currency risk	Value as at 31 March 2016 £000	Potential Market movement 7.80%	Value on increase £000	Value on Decrease £000
Overseas Equities	19,113	1,491	20,604	17,622
Overseas Pooled	1,901	148	2,049	1,753
Overseas Index Linked Bonds	13,094	1,021	14,115	12,073
Overseas Cash	26	2	28	24
Total change in assets available to pay benefits	**34,134**	**2,662**	**36,796**	**31,472**

Assets exposed to currency risk	Value as at 31 March 2015 £000	Potential Market movement 7.80%	Value on increase £000	Value on Decrease £000
Overseas Equities	20,485	1,510	21,995	18,975
Overseas Pooled	2,249	166	2,415	2,083
Overseas Index Linked Bonds	13,094	965	14,059	12,129
Overseas Cash	140	10	150	130
Total change in assets available to pay benefits	**35,968**	**2,651**	**38,619**	**33,317**

(b) Credit Risk

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

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

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

(c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Administering Authority therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. The Pension 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 2016 the value of liquid assets was £522m, which represented 93% of the total Fund (31 March 2015 £540m, which represented 95% of the total fund assets).

(d) Refinancing Risk

The key risk is that the Authority 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

London Borough of Havering ("the Fund")

Actuarial Statement for 2015/16

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). In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (N.B. this will also minimise the costs to be borne by council tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

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

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 60% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £461 million, were sufficient to meet 61% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £292 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 valuation report dated 31 March 2014.

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 2013 valuation were as follows:

	31 March 2013	
Assumptions	**Nominal**	**Real**
Discount Rate for Period	4.8%	2.3%
Pay increases *	3.3%	0.8%
Price inflation/Pension increases	2.5%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.1 years	24.1 years
Future Pensioners	24.2 years	26.7 years

** Currently aged 45*

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from the London Borough of Havering, Administrating Authority to the Fund.

Experience over the period since April 2013

Real bond yields have fallen placing a higher value on liabilities. The effect of this has been offset by the effect of strong asset returns and deficit contributions. Funding levels are therefore likely to have improved marginally and deficits fallen over the period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Employers' contribution rates for the Authority, in line with the actuary's recommendation are as shown below:

	Future Service %	Past Service %	Total Pensionable Pay %
April 14 to March 15	15.6	6.4	22.0
April 15 to March 16	15.6	6.4	22.0
April 16 to March 17	15.6	6.4	22.0

The employer contributions for the other employers in the Fund range from 17.3% to 28.7% of pensionable pay.

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, on an IAS19 basis, every year using the same base data as the Funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18).

31 March 2015	Year Ended	31 March 2016
£m		£m
1,019	Present Value of Promised Retirement Benefits	992
575	Fair Value of Scheme assets (bid Value)	572
444	Net Liability	420

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the actuary satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. The actuary has not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

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

It is estimated that this liability at 31 March 2016 comprises £476m (£460m 31 March 2015) in respect of active members, £153m in respect of deferred pensioners (£164m 32 March 2015) and £363m in respect of pensioners (£395m 31 March 2015). The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the actuary is satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. No allowance has been made for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. 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 as required by the Code of Practice. They are given below. It is estimated that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £51m.

Financial assumptions

The actuary's recommended financial assumptions are summarised below:

Year Ended	**31 March 2016**	**31 March 2015**
	% p.a.	**% p.a.**
Inflation/Pensions Increase Rate	2.1	2.1
Salary Increase Rate	3.1	3.0
Discount Rate	3.4	3.1

Longevity assumption

As discussed in Note 18, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	**Females**
Current Pensioners	22.1 years	24.1 years
Future Pensioners	24.2 years	26.7 years

*Future pensioners are assumed to be currently aged 45 at the most recent formal valuation as at Match 2013.

Please note the longevity assumptions are identical to last year's IAS26 disclosure for the Fund..

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Professional notes

This note accompanies the covering report titled 'Actuarial Valuation as at 31 March 2016 for IAS19 accounting purposes. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

20. Current Assets

2014/15 £000		2015/16 £000
	Debtors:	
8	Pension Grants	-
7	Other Local Authorities	-
345	Contributions due from employers	288
71	Contributions due from employees	82
-	Pension Fund Investment Interest	67
2,608	Pension Fund Bank Account Balances	675
2	Debtors Refund	-
5,298	Cash deposit with LB Havering	12,595
8,339	**Current Assets**	**13,707**

2014/15 £000	Analysis of Debtors	2015/16 £000
8	NHS Bodies	-
7	Other local authorities	-
345	Public corporation and trading funds	288
73	Other entities and individuals	82
433	**Total Debtors**	**370**

21. Current Liabilities

2014/15 £000		2015/16 £000
	Creditors:	
(188)	Unpaid Benefits	(883)
(263)	Accrued Expenses	(251)
(305)	Income Tax Recoveries	(320)
(3)	Holding Accounts	(27)
(759)		**(1,481)**

2014/15 £000	Analysis of Creditors	2015/16 £000
(759)	Other entities and individuals	(1,481)
(759)	**Total**	**(1,481)**

22. Additional Voluntary Contributions

Market Value 2014/15	AVC Provider	Market Value 2015/16
£000		£000
803	Prudential	707
160	Standard Life	169

Some employees made additional voluntary contributions (AVC's) of £54,827 (2014/15 £62,496) excluded from these statements. These are deducted from the employees' salaries and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2015/16 were £40,807 (2014/15 £47,380) to the Prudential and £14,020 (2014/15 £15,116) to Standard Life.

23. Agency Services

Havering Council pays discretionary awards to the former employees of Havering. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below.

2014/15 £000		2015/16 £000
1,464	Payments on behalf of Havering Council	1,452

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 Havering Pension Fund is administering by Havering Council and consequently there is a strong relationship between the Authority and the Pension Fund. In 2015/16, £0.450m was paid to the Authority for the cost of administrating the Fund (2014/15 £0.411m).

The Authority is also the largest employer in the Fund and in 2015/16 contributed £27.798m (2014/15 £22.526m) to the Pension Fund in respect of employer's contributions.

Part of the Pension Fund internal cash holdings are invested on the money markets by the treasury management operations of Havering Council, through a service level agreement. As at 31 March 2016 cash holdings totalled £12.9m (2014/15 £7.6m), earning interest over the year of £67k (2014/15 £47k).

Governance

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 Group Director of Communities and Resources.

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

Each member of the Pension Fund Committee is required to declare their interests at each meeting.

During the year no Member or Council officer with direct responsibility for Pension 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.

Key Management Personnel

Paragraph 3.9.4.3 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) as at 31 March 2016 totalled £186k (2014/15 £186k). This relates to an outstanding commitment due on an unquoted private equity fund.

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

Following the Freedom and Choice provisions announced in the 2014 Budget, the Pension Fund has seen some enquiries from members about transferring benefits out of the LGPS. As mentioned in Note 10 there are potential liabilities of £0.8m in respect of individuals transferring out of the pension Fund upon whom the Fund is awaiting final decisions. Information is not available which shows how much of this is attributable to Freedom and Choice provisions.

26. Contingent Assets

Three admitted bodies in the Havering Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds total £4.2m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Five admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.7m.

27. Impairment Losses

There were no material impairment losses for bad and doubtful debts as at 31 March 2016.

Statement of Responsibilities

The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Group Director of Communities and Resources.

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

- Approve the Pension Fund Statement of Accounts.

Councillor John Crowder
Chairman, Pensions Committee
Date: ………………………………..

The Chief Executive's Responsibilities

The Section 151 Officer is responsible for the preparation of the Authority's statement of accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the code).

In preparing this Pension Fund Statement of Accounts, the Section 151 officer has:

- Selected suitable accounting policies and then applied them consistently.

- Made judgements and estimates that were reasonable and prudent.

- Complied with the Code

The Section 151 Officer has also:

- Kept proper accounting records which were up to date.

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

I certify that the Pension Fund Statement of Accounts presents the true and fair financial position and transactions of the Authority as at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.

Andrew Blake-Herbert
Chief Executive
Date: ……………………………….

Insert new auditors opinion from Ernst & Young

Independent auditors' statement to the Members of the London Borough of Havering (the "Authority") on the Pension Fund financial statements

Statement on the financial statements

Our opinion

In our opinion, the London Borough of Havering's Pension Fund Statement of Accounts (the "financial statements"):

- are consistent with the pension fund accounts included within the Statement of Accounts of the London Borough of Havering for the year ended 31 March 2015; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

What we have examined

The financial statements comprise:

- the Net Asset Statement as at 31 March 2015;
- the Pension Fund Account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Responsibilities for the financial statements and our examination

Our responsibilities and those of the Group Director of Communities and Resources

As explained more fully in the Statement of Responsibilities set out on page 8 of the audited Statement of Accounts the Group Director of Communities and Resources is responsible for the preparation of the financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Our responsibility is to express an opinion on the consistency of the financial statements within the pension fund annual report with the pension fund accounts in the Statement of Accounts of the London Borough of Havering. Our report on the pension fund accounts describes the basis of our opinion on those pension fund accounts.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information consists only of the Trustee Report, the Management and Financial Performance Report, the Investment Policy and Performance Report, the Scheme Administration Report, the Actuarial Report, the Governance Compliance Statement, the Pensions Administration Strategy, the Funding Strategy Statement, the Statement of Investment Principles and the Communication Policy Statement and the Appendices.

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

Ciaran McLaughlin (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

30 September 2015

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

Legislation in the United Kingdom governing the preparation and dissemination of the Statement of Accounts may differ from legislation in other jurisdictions.

Pensions Administration Strategy

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

Although the Administering Authority has not adopted an Administration Strategy it has documents that cover the information on the pension scheme, forms and contribution schedules. Arrangements are made to meet all new scheme employers where their responsibilities are set out, service standards are outlined and electronic copies of all information, forms and schedules are provided. Employing authorities must ensure proper records of staff are kept so that the right contributions are paid and staff receives the benefits to which they are entitled when they leave employment.

Funding Strategy Statement

The Fund publishes a Funding Strategy Statement (FSS) in accordance with Regulation 58 of the LGPS Regulations 2013.

The Regulation requires the Pension Fund Administering Authority to publish a statement, keep its statement under review and to make such revisions as are appropriate following a material change to its policy as set out in the statement.

The Administering Authority produces a Funding Strategy Statement (FSS) in collaboration with The Fund's Actuary, Hymans Robertson, and after consultation with the Fund's employers. It incorporates the aims and purposes of the Fund and establishes a strategy which identifies the pension fund liabilities and how these will be met over the long term. It also encompasses the overall investment strategy.

The FSS was reviewed as part of the 2013 valuation process and produced in line with the revised and updated guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2012. The current FSS is operative from 1 April 2014.

This document can be found in the appendices attached to this report and is available on the Authority's website by selecting the link Havering Pension Fund

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

Statement of Investment Principles

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

The Statement of Investment Principles must cover the Fund's policy as follows:

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

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

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

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

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

There was an Investment Governance sub-group especially for the LGPS (including representatives of CLG and CIPFA) who have amended the principles to fit the LGPS. CIPFA published a guide to the application of the Myners Principles 'investment decision making and disclosure' in December 2009. Information on how Havering has complied with these six principles is included as an appendix in the Statement of Investment Principles.

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

This SIP and the Myners compliance table have also been published on the Authority's website by selecting the link Havering Pension Fund

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

Communication Policy Statement

The Local Government Pension Scheme Administration Regulations 2015 requires the administering authority to prepare and publish a written statement covering communications with scheme members and employing authorities.

The statement must set out the policy concerning:

- communications with members, representatives, prospective members and employing authorities
- format, frequency and method of distributing such information or publicly
- The promotion of the scheme to prospective members and their employers

This statement is reviewed periodically. A revised Communications Policy Statement was approved at the Pension Committee on 24th November 2015 for the period 2016 – 2018. A review of the Communication Strategy achievements for 2015/16 is shown below.

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

This Statement has also been published on the Authority's website by selecting the link Havering Pension Fund

Communication Policy Delivery

Communication Responsibilities	Paper	Electronic	Web	Face	Achieved
Action 1 – Get ready for new challenges for active members					
Review employee communications methods to ensure that they are efficient as well as effective			✓		Continuing to review and update pension website for content and to make it easier to find information, created a factsheet to assist scheme members use the online calculators and modellers.
Promote use of the LBH pension website www.yourpension.org.uk/handr and the Council's Pension Fund pages, www.havering.gov.uk/pages/services/pension-fund.aspx		✓	✓		Continue to promote websites at all meetings and in all communications – (letters and phone calls). Also a QR code is printed on key documents produced by the pension administration team All updated option forms are only available via the website unless no access to a computer. This was essential for Automatic re-enrolment.
Explore development of member online access to the pension administration system in line with self service			✓		Contracted for, as part of new pension system, on-going for 2015/16 implementation. Updated joiners option forms to capture the email addresses ready for setting members up for Member Self Service (MSS). Testing has now started on the usage, in consultation with internal audit.
Explore the development of member online benefit statements in line with					In the process of being developed and dependant on the above action

Communication Responsibilities	Paper	Electronic	Web	Face	Achieved
self service					
Support the Pension Team staff in developing communication skills through training, support and on the job training to increase their overall skills and knowledge				✓	A rota of team members have supported senior staff at all communication meetings – new scheme presentations and road shows, pre-retirement courses and new employer introduction meetings. Also started to allocate employers to Senior Transactional Agents to manage support and communications.
Action 2 – Get ready for new challenges for employers					
Maximise the use of the newly developed Pensions Team employer communication database		✓			Used for all electronic communications, in particular new scheme information and automatic enrolment information
Distribute material for employers to issue to employees		✓	✓		All new scheme information has been distributed (using the electronic database) – New Scheme Overview, Annual Allowance briefings, new scheme forms, Payroll and HR Scheme Guides, Contribution band letters etc.
Work with employers to ensure they communicate effectively and efficiently with their employees		✓	✓	✓	Apart from the electronic communications via the database, face-to-face meetings have been held with all employers to help them understand their employer responsibilities and data requirements of the new scheme. Meetings on Employer Discretions together with new employer meetings are also held, together with year-end requirements.
Continually review and improve the material and service available to employers via the LBH pension website(www.yourpension.org.uk/handr, and the Council website, www.havering.gov.uk/pages/servoces/pension-fund.aspx			✓		A new employer tab has continued to be developed on the pension website and has been updated for the new CARE 2014 scheme. A Local Pension Board tab has also been created, holding links to agendas and minutes of all LPB meetings, board member contact details, and the role and responsibilities of the board members. A new TUPE manual has been commissioned to support scheme employers to understand their responsibilities and implications when outsourcing; this will be available via the website when completed.
Collate Employer Discretion Documents		✓	✓	✓	Published policies and Employer discretions, where available, on the pension website. 29 out of 32 employers in the fund have their discretions in place and published.

Communication Responsibilities	Paper	Electronic	Web	Face	Achieved
Explore online access for scheduled and admitted bodies to automate interfaces and updates, reducing administrative overheads		✓			Worked with the London Borough of Havering on the development of the One Oracle interfaces, which have been tested and in the process of being implemented
Regular meetings with Scheme Employers				✓	As above
Allocated Specialist Senior Transactional (STA) Agent to each employer as employer liaison officers		✓		✓	All employers have a Senior Transactional agent and Team Lead for any data issues and the allocation of a benefits specialist is being rolled out
Action 3 – Get ready for new challenges for pensioners					
Explore development of member online access to the pension administration system in line with self-service					See above re member self-service (MSS), in development.

Communication Material

Communication material	Paper	Electronic	Web	Face	frequency	Intended Audience, : Active = **A**, Deferred = **D** Pensioner = **P**, Prospective members = **PM** Employers = **E** Or - **ALL**
payslips	✓	✓			**Monthly, electronic for Corporate staff**	A
payslips	✓				**April, May and October**	P
Information packs for new staff		✓	✓		**With the offer of the job, and when enrolled under Automatic enrolment duties**	PM
newsletters	✓	✓	✓		**When required**	All but targeted as appropriate
Pension updates	✓	✓	✓		**When required**	All but targeted as appropriate
Annual Benefit Statement	✓				**Annually, July / August**	A, D,
Notice of Pension Increase	✓				**Annually**	P

Communication material	**Paper**	**Electronic**	**Web**	**Face**	**frequency**	**Intended Audience, :** Active = **A**, Deferred = **D** Pensioner = **P**, Prospective members = **PM** Employers = **E** Or - **ALL**
Letters / Enquiries	✓	✓			**As required**	ALL
Estimates	✓				**As required**	A, D
Forms	✓	✓	✓			ALL
Factsheets		✓	✓		**For viewing as required**	ALL
Scheme Guides			✓			ALL
Global emails		✓			**As required**	A - Corporate
Pop ups		✓			**As required**	A - Corporate
Core Briefs		✓			**As required**	A - Corporate
School Portal		✓			**As required**	A – school based
Year End requirements information		✓	✓	✓	**Annually**	E not on the corporate payroll
Induction Sessions				✓	**As Required**	PM, carried out by HR team but supported by Pensions Team,
Roadshows				✓	**As required**	
Pre-retirement Seminars				✓	**Twice yearly**	P and prospective Pensioners
Communications Strategy			✓		**Reviewed 3 yearly**	ALL
Communications Policy Statement			✓		**Reviewed annually**	ALL
Annual Report & Accounts			✓		**Annually**	ALL
Whistleblowing Policy			✓			ALL
Funding Strategy Statement			✓			ALL
Statement of Investment Principles			✓			ALL
Specialised information leaflets – Annual Allowance			✓		**As required**	ALL
Assistance for new employers on their		✓	✓	✓	**As required**	E

Communication material	Paper	Electronic	Web	Face	frequency	Intended Audience, : Active = **A**, Deferred = **D** Pensioner = **P**, Prospective members = **PM** Employers = **E** Or - **ALL**
responsibilities						
Assistance and Support at TUPE Roadshows				✓	**As required**	A, E

The pension website is promoted on the staff intranet at the Council and in posters placed on staff notice boards in all Council buildings to ensure information on the pension scheme is accessible and available to everyone, not just scheme members. It is also advertised on payslips produced by oneSource Payroll Services on a regular basis.
The website has been further enhanced to provide links to DirectGov, for information on the new Single Tier State Pension

The Council jobs page includes, within the General Conditions of Employment, relevant for all potential and actual applicants, information on the Local Government Pension Scheme.

Contact Points for Further Information

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

Pensions Administration
Central Library, 2nd Floor
Park End Road
Romford
RM1 3AR
Telephone: 01708 432978/ 2981/ 2192

Email: pensions@havering.gov.uk

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

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

Telephone: 01708 432569

Email: debbie.ford@havering.gov.uk

Other useful addresses:

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

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

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

APPENDICES

Havering
LONDON BOROUGH

PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

Updated November 2015

1. STRUCTURE AND ROLE OF MEMBERS

The Council is the Administering Authority of the Havering Pension Fund (the Fund). The Council has delegated to the Pensions Committee various powers and duties in respect of its administration of the Fund. The Council agreed changes to its Constitution on the 25 March 2015 to establish the Havering Local Pension Board and adopt their Code of Conduct and Conflict of Interest policies.

Day to day management of the Fund is delegated to the Group Director of Communities and Resources

1.1 Role of Pensions Committee

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

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

- Authorise staff to invite tenders and award contracts for actuaries, advisors and fund managers and in respect of other related investment matters;

- To appoint and review the performance of advisors and investment managers for pension fund investments;

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

There is a code of conduct in place which includes a process that considers potential conflicts of interest, with clearly identified steps on how to report or act should a conflict occur. All members are required to declare any interests in relation to the Pension Fund or items on the agenda at the start of each meeting.

1.2 Role of Local Pension Board (the Board)

The functions of this board are as follows:

- Securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme connected to it;

- Securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions regulator;
- Such other matters as the scheme regulations may specify.

All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

The full version of the Board's Terms of reference can be found on the Havering pension fund website: www.Yourpension.org uk.

2. MEMBERSHIP AND REPRESENTATION

2.1 Pensions Committee

The membership of the Pensions Committee reflects the political balance of the Council and consists of seven councillors as listed below:

Conservative Group (3)	Resident's Group (2)	East Havering Resident's Group (1)	UKIP (1)
John Crowder (Chair) Melvin Wallace Roger Westwood	John Mylod * Stephanie Nunn	Clarence Barrett	David Johnson (Vice-Chair)

*From June 2015 Cllr John Mylod was replaced by Cllr Ray Morgon - Residents Group

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

Scheduled and Admitted bodies may appoint one representative, entitled to attend the meetings of the Pensions Committee on their behalf. Voting rights were assigned to this representative at a Council meeting on the 28 March 2012.

Longevity in membership of the Committee is encouraged in order to ensure that expertise is maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the Council in order that members are fully trained, unless exceptional circumstances require a change. Furthermore substitute members are expected to have also been trained. The Council's constitution was amended on the 28 March 2012 to include a stipulation that if a member does not undertake the required training within six months of appointment than that member shall not partake in the decision making of the Committee until their training has been completed.

2.2 Local Pension Board

The Havering Pension Board consists of four members as follows:

Two Employer representatives - shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. No officer or elected member of the Administering Authority who is responsible for the discharge of any function of the Administering Authority under the Regulations may serve as a member of the Board.

Two Scheme Member Representatives - shall either be scheme members or have capacity to represent scheme members of the Fund. Scheme member representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

Chair - Chair is to be appointed by the employer and scheme member representatives of the Board from amongst their own number on a rotating basis with the term of office shared between an employer and a scheme member representative on an equal basis.

Each employer representative and scheme member representative appointed will serve for a fixed four year period to ensure that expertise is maintained within and members can be fully trained.

Each member of the Board will have one vote but it is expected the Board will as far as possible reach a consensus.

3. GUIDANCE AND MONITORING

3.1 Pensions Committee

The Pensions Committee is supported by the Group Director of Communities and Resources and the Director of Legal and Governance (oneSource). The Director of Exchequer and Transactional Services (oneSource) has the responsibility to administer the Council's Pension Fund. Members also receive briefings and advice from the Fund's investment advisor at each committee meeting.

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

Investment Managers are invited to present at the Pensions Committee meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exceptions to this procedure are the pooled managers who will attend two meetings per year, one with Officers and one with the Pensions Committee. However if there are any specific matters of concern to the Committee relating to the managers performance, arrangements will be made for additional presentations.

3.2 Local Pension Board

Officers will attend the Board meetings and provide support and advice as and when required. A budget has been allocated for the Board to fulfil its tasks and this budget includes an allocation for professional advice.

4. REIMBURSEMENT

4.1 Pensions Committee

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

4.2 Local Pension Board

Board members will receive an allowance, at the same rate paid to co-opted members' for other committees, per scheduled meeting attended. No payment will be made for nonattendance.

Reasonable travelling expenses for training will be reimbursed.

5. TRAINING

5.1 Pensions Committee

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

The Fund uses the CIPFA's Knowledge and Skills self-assessment training questionnaire to identify and evidence the knowledge and skills of the members. In addition to the cyclical training that the Committee 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. Associated training and development is linked to the pensions committee meeting cyclical coverage

5.2 Local Pension Board

A joint training strategy is currently being developed and will be presented to the Pensions Committee and the Board during 2015/16.

6. MEETINGS

6.1 Pensions Committee

The Pension Committee meets five times a year and occasionally holds extra meetings if required. Three Members constitute a quorum.

6.2 The Local Pension Board

The Board will hold five meetings per year, approximately two weeks after the Pensions Committee meeting, with one Annual meeting being held at the beginning of the committee cycle. Three members constitute quorum. Advisors and officers do not count towards the quorum.

7. SCOPE

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

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

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

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

- The Funding Strategy Statement identifies the measures in place to control the key risks identified as financial (including investment risk), demographic, regulatory and governance.

- The Risk Register identifies the key risks that the Pension Fund may face and the measures that can and have been put in place to mitigate those risks

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

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

8. ACCESS AND PUBLICATION

8.1 Pensions Committee

Details of the Pension Committee meetings are published on the Council's website, seven days prior to the meeting date, together with agendas and minutes. All members have equal access to papers. The meetings of the Pension Committee are held at the Town Hall and are open to the public.

Scheduled and Admitted bodies are directed to the Agenda and minutes published on the Council's web-site and are notified in writing of any major issues.

An Annual Pension Fund Report and Accounts is published on the Council's web-site, reporting on the activities and investment performance of the fund. The report also includes the meetings held and details of matters considered.

8.2 Local pension Board

Details of the Local Pension Board meetings are published on the Council's website, seven days prior to the meeting date, together with agendas and minutes. All board members have equal access to papers. The meetings of the Board are held at the Town Hall during office hours and are open to the public.

9. REVIEWING AND UPDATING

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

10. COMPLIANCE TABLE

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

	PRINCIPLE	HAVERING POSITION
A.	**<u>Structure</u>** a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	**Full compliance.** Duties and terms of reference are laid out in the Council's constitution (Part 3) and states that management of the pension fund assets lies with the Pensions Committee. Day to day management of the Pension Fund is delegated to the Group Director of Communities and Resources. Select link to Havering Website to read the Council's constitution: Havering Constitution Section 1 the Governance Compliance Statement refers.
	b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the committee.	**Full compliance.** Admitted/Scheduled bodies may appoint one representative to attend the committee meetings. The staff Trade Unions may appoint two representatives to attend and speak at meetings. There is no secondary committee. Section 2 of the Governance Compliance Statement refers.
	c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	No secondary committee or panel has been established.
	d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	No secondary committee or panel has been established.

	PRINCIPLE	HAVERING POSITION
B	**<u>Committee Membership and Representation</u>** a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, e.g. admitted bodies);	i**) Full compliance** - A position has been established for Admitted/Scheduled bodies' representative to be a member of the Pensions Committee and is currently occupied by the bursar from St Edwards Church of England School. Supplementary to the above stakeholders are consulted for their views with regard to various policies and are directed to papers and reports held on the Council's website.
	ii) scheme members (including deferred and pensioner scheme members),	ii) **Full compliance** – via trade union representation
	iii) where appropriate, independent professional observers, and	iii**) Non-compliance** – The Pension Committee have considered this and decided that it is not appropriate to appoint an independent observer on the basis that the current monitoring arrangements are sufficient for the size of the fund.
	iv) expert advisors (on an ad-hoc basis)	iv) **Full compliance** – The Fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required. Sections 2 and 3of the Governance Compliance Statement refers.

Page 163

	PRINCIPLE	HAVERING POSITION
C	**<u>Selection and role of lay members</u>** a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	**Full compliance**. Duties and terms of reference are laid out in the 'Council's constitution and states that management of the pension fund lies with the Pensions Committee. Sections 1 and 2 of the Governance Compliance Statement refer.
	b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	**Full compliance.** Declarations of interest are always an agenda item at the Pension Committee meetings. Section 1 of the Governance Compliance Statement refers.
D	**<u>Voting</u>** a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	**Full compliance.** The Governance Compliance Statement is clear about voting rights Section 2 of the Governance Compliance Statement refers.
E	**<u>Training/Facility time/Expenses</u>** a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision- making process.	**Full compliance.** Member's expenses and allowances are laid out in the Council's Constitution (Part 6). The Business Plan includes the policy on training. Sections 4 and 5 of the Governance Compliance Statement refer.
	b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	**Full compliance.** As above.
	c. That the administrating authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken	**Full compliance.** As above. Training is laid out in the Annual Business Plan/Work of the Committee. The Business Plan is agreed by the Pensions Committee and all committee members and nominated substitutes are offered training. A training log is maintained and records attendance and training undertaken. Section 5 of the Governance Compliance Statement refers.

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

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

Havering
LONDON BOROUGH

HAVERING PENSION FUND

COMMUNICATION STRATEGY

2016-2018

COMMUNICATION STRATEGY 2016 - 2018

INTRODUCTION

The Local Government Pension Scheme (LGPS) moved to a Career Average Revalued Earnings (CARE) basis from April 2014

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

The scheme stakeholders include:

- COMMITTEE MEMBERS
- EMPLOYERS including
  - LONDON BOROUGH OF HAVERING
  - SCHEDULED BODIES
  - ADMITTED BODIES
  - LOCAL PENSION BOARD
  - PENSION PANEL
- SCHEME MEMBERS
  - ACTIVE MEMBERS (CONTRIBUTORS)
  - RETIRED MEMBERS AND DEPENDENTS
  - DEFERRED MEMBERS
  - PENSION CREDIT MEMBERS

- PROSPECTIVE SCHEME MEMBERS
- OFFICERS WORKING IN THE ONESOURCE PENSION TEAM AND FUND MANAGEMENT
- INVESTMENT FUND MANAGERS

- OTHER BODIES
  - TRADE UNIONS
  - ACTUARIES
  - LEGAL ADVISER
  - AVC PROVIDERS
  - PENSION ADMINISTRATION SOFTWARE PROVIDER
  - INVESTMENT ADVISOR

Set out in this document are the key communication priorities, the mechanisms and format which will be used to meet those communication needs.

The Fund aims to use the most appropriate communications medium for the audiences receiving the information. This may involve using more than one method of communication, with the methods used being kept under review.

The frequency of communications and publicity is detailed in the following relevant sections where already determined, otherwise information will be provided in the most effective, economic and timely manner.

COMMUNICATION DELIVERABLES

There are three areas of significant challenge that will drive the communication strategy during the period 2016 – 2018:
i) Automatic Re-enrolment;
ii) The Triennial Revaluation; and
iii) The introduction of Member Self-service.

The key actions required to deliver the focus of the strategy follow. These are the basis of the Communication Strategy monitoring.

The Key actions will be -

Action 1 – Active Members

- Continue to review employee communications methods to ensure that they are efficient as well as effective
- Continue to promote use of the LBH pension website, www.yourpension.org.uk/handr and the Council's Pension Fund pages, www.havering.gov.uk/pages/services/pension-fund.aspx

- Continue in the development of member online access to their pension record in line with oneSource self-service,
- explore the development of member online Annual Benefit statements via Member Self Service,
- support the Pension Team staff in developing communication skills through training, support and on the job training to increase their overall skills and knowledge.

Action 2 – Employers:

- continue to maximise the use of the developed Pensions Team employer communication database
- distribute material for employers to issue to employees
- work with employers to ensure they communicate effectively and efficiently with their employees
- continually review and improve the material and service available to employers via the LBH pension website www.yourpension.org.uk/handr, and the Council website, www.havering.gov.uk/pages/servoces/pension-fund.aspx
- Complete the collation and publication of Employer Discretion Documents
- explore online access for scheduled and admitted bodies to automate interfaces and updates, reducing administrative overheads
- regular meetings with Scheme Employers,
- allocated Specialist Senior Transactional Agent to each employer as employer liaison officers.

Action 3 – Pensioners:

- explore development of member self-service access to their pension record on the administration system in line with oneSource self-service.

Action 4 – Deferred Pensioners:

- explore development of member self-service access to their pension record on the administration system in line with oneSource self-service.

COMMUNICATION RESPONSIBILITIES AND METHODS

The provision of timely and relevant information to stakeholders is key to managing the need for information and it is important we manage these expectations in resource terms (i.e. staff time).

The most efficient form of communication channel is on-line self-service and the least efficient channel is face-to-face, although the customer profile dictates the most effective communication channel.

A continual review of the effectiveness and efficiency of all communication channels takes place, aiming at developing the more efficient channels. The channels on order of efficiency are:

- on-line self-service,
- websites,
- employer newsletters and electronic updates,
- anticipating and targeting appropriate information to members via e-communication routes,
- anticipating and targeting appropriate information to members via hardcopy distribution,
- responding within set targets to incoming email (generic inbox),
- responding within set targets to incoming phone calls (generic phone number),

- regular meetings with External Employers (joint meetings and individual surgeries),
- roadshows for groups of Fund members,
- meeting Fund members individually face-to-face,

The Pensions Team consider the costs and benefits of all our future communications activities with a view to using the most efficient and effective methods, subject to appropriate systems to facilitate efficient communication methods with more members of the scheme than is the case at present. An example of “savings” has been the change to a generic letter to pensioners detailing the pensions increase which was sent with the April payslips, saving postage costs and officer time checking the previous bespoke letters.

PENSION COMMITTEE MEMBERS

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

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

Admitted and Scheduled Bodies who have members in the Fund are represented at the Pensions Committee meetings by one of the employers of the fund who acts on behalf of all other employers. This position has been assigned voting rights from March 2012. The Trade Unions are also invited, who attend meetings on an observer basis, but whose views are given equal weighting. The Trade Union representatives are also Scheme members.

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

Reports were taken to Pensions committee during the year regarding / covering \LGPS Governance Reform, LGPS Administering Authority’s Discretion Policies, LGPS Employer Discretions Policies and Pension fund Charging Policy.

LOCAL PENSION BOARD

Legislation required the creation of a Local Pension Board by 1 April 2015. The role of the board being to assist the Authority’s Pension Manager in executing her duties.
A joint working party with L B Newham staff met regularly to ensure that the Terms of Reference and makeup of the board was agreed by Council in time.

SCHEME EMPLOYERS

Recent Changes
Following the Education Act 2011 there has been a significant growth in scheme employers due to the rising number of Secondary schools converting to Academies in the borough, and this trend is still continuing with Primary school Academies now being formed. Officers of the pension team continue to support new Academies as separate employers with the breadth of their new responsibilities. Experience so far has demonstrated that support beyond the normal is required to help them meet their statutory functions. The second impact of the new Academies, specifically for the Pension Team, is that the employer base has increased which increases the overall management and monitoring of scheme employers.

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

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

This is supplemented by contacting a Specialist Senior Transactional Agent to non-Havering employers, available by telephone or personal visit to assist whenever necessary.

Internet
A microsite for employers is established on the Fund website. All manuals and Scheme literature is available on this site and is updated as required.

Site Meetings
Meetings with non-Havering Employers take place at their premises or at the council office, as required. Specifically this has been used as a mechanism for communicating major strategic issues, significant legislation changes and triennial valuation matters.
"Yearend" meetings are held with Employers not on the council payroll.

SCHEME MEMBERS

Internet
Continue to review and develop the websites content, facilities and links of the Fund website, which contains Scheme details, fact sheets, forms, other literature and links to useful associated websites; and the Council website, which contains a number of strategies and financial information for our members to view.

Pension Fund Annual Report and Accounts
The Pension Fund communicates with its members via publication of an Annual Report which is available on the Council's website and Fund website www.yourpension.org.uk/handr

A copy of the Fund's accounts is available on the Council's website, included in the Pension Fund's Annual Report and available on the Fund website.
It is intended that scheme members will be informed of the annual report via a "Global news" item when it is available on both websites.

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

Benefits Statements
An Annual Benefit Statement is currently sent direct to the home address of all members who are contributing to the Fund at the previous financial year end. It is the intention to have these made available through Member Self Service when it is launched.
Benefit Statements are also sent direct to the home address of deferred members where requested to a home address where it is known.

Scheme Literature
An extensive range of Scheme literature is produced by the Administering Authority and is supplied to employing bodies and Scheme members directly as well as being available on the funds website (as above).

Pay Advices
The Fund issues a pay advice to Scheme pensioners if their net pay varies by more than £5.00. An initial payslip, detailing the first pension payment, is sent to the home address. Further payslips will only be issued each April, May and October.

Additionally, Pension Increase letters are sent out annually and a P60 is issued annually by 31 May as per HMRC deadlines.

The authority operates Real time Information (RTI).

Correspondence
The fund utilises the oneSource service contact telephone number and email through Service Manager, together with surface mail and e-mail to receive and send correspondence in accordance with Audit advice and guidance.

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

Additionally, Pensions Administration Staff attend Pre-retirement courses and recruitment days run by the Council to provide information to staff nearing retirement.
As well as being a valuable aid for pensioners and current scheme members, roadshows are used to target specific non-members.

PROSPECTIVE SCHEME MEMBERS

Scheme Booklet
All new prospective Scheme members will be provided with an electronic Scheme booklet at the time of their appointment to the London Borough of Havering and directed to the Fund website.

Intranet
The Fund's Intranet area contains a link to the fund website at www.pension.org.uk/handr

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

Corporate Induction Courses
Officers of the Council will attend corporate induction events in order to present the benefits of joining the LGPS to prospective scheme members.

One-to-One" surgeries
One-to-One surgeries or meetings are held when requested to take account of individual queries.

OFFICERS WORKING IN THE ONESOURCE (HAVERING) PENSION TEAM AND FUND MANAGEMENT

Service Management Teams
The Fund is managed by Corporate Strategic Finance Services and administered by oneSource whose Senior Officers report to the relevant Directors.

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

Shared Area
Shared areas give all pension team staff access and contain such information as procedure manuals, core briefings,

LGPS circulars etc. This is an effective mechanism for ensuring that information is available to all staff at their work location in a timely manner. A database of links to all legislative circulars and bulletins is maintained to assist the team access information efficiently.

Induction
All new members of pension team staff undergo an induction procedure.

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

Seminars
Pension Team officers regularly participate at seminars, conferences and specialised targeted training courses.

Pensions Team Leader
The Pensions Team Leader maintains an open-door policy and, within reason, is available to all staff on request. Skills and knowledge is kept up to date through participation at seminars, forums and conferences.

Pension Fund Accountant
The fund accountant responds to staff and other enquiries. Skills and knowledge is kept up to date through participation at seminars and conferences.

INVESTMENT FUND MANAGERS

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

OTHER BODIES

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

CIPFA Benchmarking Club
The Council has decided to no longer participate in CIPFA but from 2015 will participate in Scheme Advisory Board benchmarking. This benchmarking will be mandatory from 2016 onwards.

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

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

The authority participates in the National fraud initiative.

Our Aspirations

The Communication strategy is designed to complement the service we offer, and ensure we are communicating effectively with our stakeholders.

We aim to:
- communicate in a friendly way using plain English as much as possible, and professional jargon only where necessary
- use various mediums as appropriate and as efficiently and as economically as possible
- ensure all information on the scheme and associated topics is succinct, relevant and up to date.

To offer "self-service" to update the scheme member individual records on the pension administration system. This will allow them to access their pension record using a password security system and to transact a significant proportion of their pensions business without having to enter into formal correspondence. Self-service is dependent upon upgrading the pension administration system.

Online ABS

Further Information

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

Write to us at:
Pensions Team
oneSource
Central Library, 2nd Floor,
St Edwards Way
Romford
RM1 3AR

Tel: 01708 433333
Fax: 01708 432078
E-Mail: pensions@havering.gov.uk,

Council's website:
www.havering.gov.uk/pages/services/pension-fund.aspx

Fund website:
www.yourpension.org.uk/handr

Direct dial telephone numbers are quoted on letters issued by the fund.

London Borough of Havering Pension Fund

Funding Strategy Statement
February 2014

Steven Law
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP

LONDON BOROUGH OF HAVERING PENSION FUND

HYMANS ROBERTSON LLP

Funding Strategy Statement

Appendices

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Havering Pension Fund ("the Fund"), which is administered by London Borough of Havering ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2014.

1.2 What is the London Borough of Havering Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees and those employed in similar or related bodies across the whole of the UK. The Administering Authority runs the London Borough of Havering Fund, in effect the LGPS for the London Borough of Havering area, to make sure it:

- receives the proper amount of contributions from employees and employers and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives) and to their dependants (as and when members die) as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix A.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions;
- transparency of processes;
- stability of employers' contributions; and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix B.

The FSS is a summary of the Fund's approach to funding its liabilities and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues.

The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policy on admissions;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current employee, former employee or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits with the other competing demands for council money; and a Council Tax payer: your council seeks to strike the balance above and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

· to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

· to ensure that employer contribution rates are reasonably stable where appropriate;

· to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);

· to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

· to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. who is responsible for what;

B. the regulatory background, including how and when the FSS is reviewed;

C. some more details about the actuarial calculations required;

D. the assumptions which the Fund actuary currently makes about the future; and

E. what issues the Fund needs to monitor, and how it manages its risks;

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Debbie Ford in the first instance at e-mail address Debbie.Ford@havering.gov.uk or on telephone number 01708 432569.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix C).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix D.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 31 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant and likely term of membership are also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.
If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies. In addition, the new academies and maintained schools are tendering for bought in services (e.g. catering) which will extend further the admitted bodies following the New Fair Deal (October 2013).

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as foundation schools are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme. The New Fair Deal gives any council staff providing services under contract to certain maintained schools (including Foundation schools), who are TUPE'd to another contractor, the right to remain in the LGPS. This would be through an admission agreement.

Other employers are able to participate in the Fund via an admission agreement and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities while TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

The extension of TABs, particularly for low value contracts, can expose both the scheme employers and the other employers in the Fund to risk. The risk from Academies is partly offset by the Secretary of State guarantee.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services and/or greater pressure on council tax levels;

- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and

- Other employers will provide various services to the local community, perhaps through housing associations, charitable work or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired or to their families after their death;

- The Fund must have the assets available to meet these retirement and death benefits which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;

- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;

- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result; and

- Council contributions to the Fund should be at a suitable level to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer. A risk assessment will take into account such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix B.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation");
- the use of extended deficit recovery periods;
- the phasing in of contribution rises or reductions;
- the pooling of contributions amongst employers with similar characteristics; and/or
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, with advice from the actuary, adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than their underlying contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term; and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies and Designating Employers**		**Transferee Admission Bodies**	
Sub-type	**Local Authority**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**Open to new entrants**	**Closed to new entrants**
Basis used	On-going, assumes long-term Fund participation (see Appendix D)			On-going, but may move to "gilts basis" - see Note (a)		On-going, assumes fixed contract term in the Fund (see Appendix D)	
Future service rate	Projected Unit Credit approach (see Appendix C – C.2)				Attained Age approach (see Appendix C – C.2)	Projected Unit Credit approach (see Appendix C – C.2)	Attained Age approach (see Appendix C – C.2
Stabilised rate?	Yes - see Note (b)	No	No	No	No	No	
Maximum deficit recovery period – Note (c)	20 years	20 years	20 years	15 years	15 years	Outstanding contract term	
Deficit recovery payments – Note (d)	Monetary Amount or percentage of pay as appropriate						
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority				Reduce contributions by spreading the surplus over the remaining contract term	
Phasing of contribution changes	Covered by stabilisation arrangement	3 years - Note (e)				None	
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract	
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)	

Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).	Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).	Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on a basis appropriate to the circumstances of cessation – see Note (j).

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and

- the employer has no guarantor, and

- the admission agreement is likely to terminate or the employer is likely to lose its last active member within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set the employer's contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;

- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies) or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4) the Administering Authority has agreed a stabilisation mechanism with the Fund Actuary taking into account a number of factors.

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will be set as annual monetary amounts. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments as a percentage of pay instead, for instance where:

- there has been a significant increase in payroll due to auto-enrolment, or
- the employer has an increase in payroll due to significant transfers into their portion of the Fund.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, failure to pay contributions or to arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion; and

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion.

e) Therefore, new academies may start with a deficit, depending on market conditions, which will be recovered over the same period as the council.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies and will be reflected in a subsequent version of this FSS. In particular, policies (c) and (d) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

· the strain cost of any redundancy early retirements resulting from the premature termination of the contract;

· allowance for the risk of asset underperformance;

· allowance for the risk of a fall in gilt yields;

· allowance for the possible non-payment of employer and member contributions to the Fund; and/or

· the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer and will be reassessed at least triennially.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. Clearly, as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor; subject to complying with the Administering Authority requirements regarding guarantees, indemnities or bonds to minimise the risk to the other employers in the Fund. In particular there are three different routes that such employers may wish to adopt (forms of 'passthrough' arrangements):

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;

- redundancy and early retirement decisions

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- A TAB reaching the end of their contract;

- The last active member ceasing participation in the Fund;

- The insolvency, winding up or liquidation of the Admission Body;

- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;

- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or

· The failure by the Admission Body to renew or adjust the level of the bond or indemnity or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other on-going employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) For a TAB reaching the natural end of their contract the cessation valuation will normally be calculated using the on-going basis as described in Appendix D;

b) For a TAB leaving the Fund prematurely (e.g. due to insolvency), the cessation valuation will normally be calculated using the "gilts cessation basis", which is more prudent than the on-going basis. This has no allowance for potential future investment outperformance above gilt yields and has added allowance for future improvements in life expectancy;

c) For non-TAB bodies, where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the on-going basis as described in Appendix D;

d) Alternatively for non-TAB bodies, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due and this is within the terms of the guarantee;

e) For non-TAB bodies, where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the on-going basis. This has no allowance for potential future investment outperformance above gilt yields and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Any shortfall arising from an early termination of an agreement would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit and would carry out the cessation valuation on an on-going basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases as the Body would have no contributing members.

All TABs would have a cessation valuation carried out at the normal end of the contract period. Any sums due to the Fund to meet shortfalls at this time would require immediate payment. These sums may be subject to a ‘pass-through’ arrangement with the Scheme employer but may not be covered by a bond, indemnity or guarantee.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy. Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer’s contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to:

- a suitable bond;
- a legally-binding guarantee from an appropriate third party;
- tripartite admission agreement with the contractor or scheme employer in place of a guarantee; and
- security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer’s deficit;
- the amount and quality of the security offered;
- the employer’s financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.7 Ill health early retirement costs

Employers will usually have an 'ill health allowance'. The Fund monitors each employer's ill health experience on an on-going basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged; and

- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage, premium terms or if the policy is ceased.

3.9 Employers with no remaining active members

In general, an employer ceasing in the Fund due to the departure of the last active member will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of following situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund; or

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written on-going commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund and (b) the value of the past service liabilities of the transferring members;

- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and/or

- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years and continues to receive contribution and other income. All of this must be invested in a suitable manner which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see D3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see B1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

· Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

· Affordability – how much can employers afford;

· Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

· Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.
The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, annually. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

5 Key Risk and Controls

The key types of risk specific to the FSS that have been identified are:

- Financial (including investment risk);
- Demographic;
- Regulatory; and
- Governance

The measures in place to control the key risks to the Fund are detailed in Appendix E.

Appendix A – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

A1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

A2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and

- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

A3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

- advise on the termination of Admission Bodies' participation in the Fund; and

- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

A4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;

- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;

- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection and sign off annual reports and financial statements as required;

- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund; and

- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix B – Regulatory framework

B1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

· *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*

· *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

· *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

B2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers on the 27th February for comment;

b) Comments were requested by the 25th March 2014;

c) Following the end of the consultation period the FSS was updated where required and then published, in March 2014.

B3 How is the FSS published?

The FSS is made available through the following routes:

- A copy sent by [post/e-mail] to each participating employer in the Fund;

- A copy sent to [employee/pensioner] representatives.

- A full copy is available on the Council's website. Our website follows the latest accessibility standards and meets, if not exceeds, the 'AA' (or 'AAA') standard of the Website Accessibility Initiative (WAI) Guidelines published by the World Wide Web Consortium (W3C). Text can be expanded in size and BrowseAloud is available to download.

- Copies sent to investment managers and independent advisers; and

- Copies made available on request.

B4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications;

- amendments affecting only one class of employer would be consulted with those employers; and/or

- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the [Pensions Committee] and would be included in the relevant Committee Meeting minutes.

B5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund. These documents are available on request.

Appendix C – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience and these are described in detail in Appendix D.

C1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

C2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the "on-going" valuation basis (see Appendix D), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

[1] See LGPS (Administration) Regulations 36(5).
[2] See LGPS (Administration) Regulations 36(7).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

C3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see C5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix D. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the on-going basis, unless otherwise determined (see Section 3).

C4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs.salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death; and/or
- the additional costs of any non ill-health retirements relative to any extra payments made; over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the on-going basis being exchanged between the two employers.

C5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix D – Actuarial assumptions

D1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

D2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "on-going basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

D3 What assumptions are made in the on-going basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to the retail prices index (RPI). This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at CPI plus 1.5% per annum (equivalent to RPI plus 1% per annum at the time).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.
The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the on-going valuation basis for future improvements in line with the CMI2010 “Peaked” projections with a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach is broadly neutral when considering the average number of years of life expectancy. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix E – Key risks and controls

E1 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance. Engage an independent investment advisor.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.

Risk	Summary of Control Mechanisms
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions – please refer back to Section 3.1.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
Academy school ceases due to failure.	The Fund seeks a cessation valuation and makes a claim to the Secretary of State for Education under the Academies guarantee.
Admission Bodies failure.	The Fund will seek to have in place a bond/indemnity and/or 'pass-through' arrangement with scheme employer or a tripartite admission agreement.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.

Risk	Summary of Control Mechanisms
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, seek monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.
Risk	**Summary of Control Mechanisms**
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers sponsoring admitted bodies to inform it of forthcoming changes.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies

Risk	Summary of Control Mechanisms
	to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix F – Glossary

Actual Contribution Rate	The contribution rate payable by each individual **employer**. For more details (see 3.3).
Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Bond/Indemnity	To cover early termination of a contract due to, but not limited to, • the funding strain arising from the early payment of liabilities that will arise as a consequence of redundancy if the Employer goes into liquidation, insolvency or winds up. Employees over age 55 are eligible for immediate payment of pension in the event of being made redundant; • any general funding shortfall, arising from variations between experience and assumptions used when determining the on-going Employer's contribution rate; and • a provision to cover the potential liability due to adverse market conditions over the period until the next actuarial valuation. This bond does not cover any final cessation payments at the end of a contract.
Closed to new entrants	Only existing LGPS members are covered by the admission agreement and hence are eligible to participate in the Fund ("*Closed* Agreement").
Cessation Valuation	At the natural end of a contract or when the last active member of an Employer retires, a cessation valuation is carried out to determine the final contribution due from the Employer. The final contribution due may be subject to a 'pass-through' arrangement with the scheme employer.
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears

	that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.
Funding level	The ratio of assets value to **liabilities** value: for further details (see 2.2).
Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's. This may be evidenced by a Combined Committee report, tripartite admission agreement or separate guarantee agreement subject to a financial review.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy. The letting employer will meet the actuarial fees for setting contribution rates and any bond reviews.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Open to new entrants	New recruits as well as existing LGPS members are covered by the Admission agreement and hence are eligible to participate in the Fund ("Open Agreement").
Pass-through	A risk sharing agreement between the letting employer and the contractor. Further details can be found in 3.3 Note (i).
Past service adjustment	The part of the employer's annual contribution which relates to past service **deficit** repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see

3.4).

Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% **funding level**, ie where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

STATEMENT OF INVESTMENT PRINCIPLES

NOVEMBER 2015

STATEMENT OF INVESTMENT PRINCIPLES

London Borough of Havering Pension Fund ('the Fund')

BACKGROUND

The Scheme

The Local Government Pension Scheme (LGPS) is a nationwide scheme and part of the pay and reward packages for employees working in local government or working for other employers participating in the scheme.

The London Borough of Havering is the Administering Authority for the London Borough of Havering Pension Fund. The Fund is part of the Local Government Pension Scheme (LGPS) and provides death and retirement benefits for all eligible employees and their dependants.

The Scheme is a contributory, defined benefit occupational pension scheme and all active members are required to make pension contributions which are based on a fixed percentage of their pensionable pay as defined in the LGPS regulations.

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

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

A new Career Average Revalued Earnings (CARE) Scheme was introduced from 1 April 2014. Pension builds up on a yearly basis equal to 1/49th of their actual pensionable pay in that year.and is revalued in line with CPI (Consumer Price Index). For membership prior to 1st April 2014 pension is based on the best of the last three year's pensionable pay (whole time equivalent pay) and actual scheme membership (reckonable service).

Legislation

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and as amended in 2013 require Local Authority Pension Funds to prepare a Statement of Investment Principles (SIP) and to keep the statement under review and if necessary revised after any significant change in investment policy.

The Regulations set out that the SIP must cover:

- The types of investments to be held;
- The balance between different types of investments;
- Risk, including the ways in which risks are to be measured and managed;
- The expected return on investments;
- The realisation of investments;
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- The exercise of the rights (including voting rights) attaching to investments, if they have any such policy; and
- Stock lending.

They are also required to set out a Statement of Compliance with the six Principles of Investment Management contained in the CIPFA document "Principles for Investment Decision Making and disclosure" published in December 2009 and updated in 2012.

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

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

Pensions Committee

A dedicated group of Councillors (the "Pensions Committee") has been set up to deal with the majority of the Fund's investment issues. Major investment decisions will be referred for consideration to the Pensions Committee. The Pensions Committee is made up of elected representatives and reflects the political balance of the Authority. The Council and Employer representatives each have voting rights and Trade Unions have observer status. Scheduled and admitted bodies may appoint one representative who is entitled to attend the meetings of the Pensions Committee on their behalf.
The Pensions Committee reports to Full Council and has full delegated authority to make investment decisions. The Pensions Committee decides on the investment policies most suitable to meet the liabilities of the Havering Pension Fund and has ultimate responsibility for the governance of the Fund including Investment Strategy.
In particular, the Pensions Committee has duties that include:

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

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

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

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

Investment Managers

The Fund is invested in shares issued by companies listed on the stock exchange and on foreign exchanges and also in bonds, property funds and in cash.

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

INVESTMENT RESPONSIBILITIES

Responsibilities of the Pensions Committee

- Overall investment strategy and strategic asset allocation with regard to the suitability and diversification of investments;
- Monitoring compliance with this Statement of Investment Principles and reviewing its contents;

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

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

- Ensuring compliance with statutory requirements and the investment principles set out in this document and reporting any breaches to the Pensions Committee;
- Management of surplus cash, which is lent through the money markets in accordance with the Council's Treasury Management Code of Practice. Performance is measured against the 7-day London Interbank Bid (LIBID) rate;
- Investment accounting and preparing the annual report and accounts of the Fund;
- Ensuring proper resources are available for the Council's responsibilities to be met.

The Investment Managers are responsible for:

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

The Independent Custodian is responsible for:

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

The Actuary is responsible for:

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

The Independent Measurers are responsible for:

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

The Investment Adviser is responsible for:

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

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

The Auditor

- The Fund is audited annually at the end of each financial year ending 31 March by external auditors.

PENSION FUND LIABILITIES

Fund Objective

The purpose of the Fund is:

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

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

- To ensure that sufficient resources are available to meet all liabilities as they fall due.
- To enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.
- To manage employers' liabilities effectively.
- To maximise the income from investments within reasonable risk parameters.

The liabilities of the Pension Fund are the pensions due to be paid to current pensioners and their dependents, deferred members and the future benefits that will be paid to active members.

For active members, benefits are based on service completed but take account of future salary increases. The value of liabilities is calculated consistently on the on-going basis set out in the formal report of the Fund's Actuary on the actuarial valuation carried out as at 31 March 2013.

At the last triennial valuation (at 31st March 2013) the funding ratio was 61%.

The Fund's asset performance is monitored quarterly by the Pensions Committee and the funding position is formally reviewed at each triennial actuarial valuation and in accordance with the Fund's Funding Strategy Statement the Actuary also carries out an inter-valuation update. This funding update is provided to illustrate the estimated development of the funding position 18 months from the date of the valuation.

The Administering Authority is obliged to prepare a Funding Strategy Statement (FSS), which is published on the Council's web site Pension Fund page Havering Pension Fund. This outlines the method by which the Fund aims to return to an acceptable level of funding. This is expected to be

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

achieved by a combination of increased contributions to the Fund, and achieving good long-term investment returns following the implementation of the new investment strategy in 2012.

INVESTMENT STRATEGY

Investment Objectives

In framing investment strategy, it is recognised that the Committee has the long-term objective of being 100% funded on the current funding basis (i.e. with liabilities discounted at a rate of 1.8% p.a. in excess of gilt yields). The Committee is currently targeting to achieve this objective over the period to 2030.

The Committee wishes to pursue an investment strategy that retains at least a 60% chance of achieving this long-term objective. They have recognised that, over the ten year period from 31 March 2012, the required return from the Fund's assets to get "back on track" is around 6.5% p.a. more than the growth in the Fund's liabilities.

The Committee acknowledges this objective to be challenging and will therefore use this as a point of reference, rather than an explicit target. The Committee will monitor the development of the Fund's funding level to ensure the Fund remains on track and to identify any potential actions needed.

Based on advice from their Investment Adviser and a detailed review of strategy undertaken during 2012, the Committee has adopted a flexible investment strategy that reflects the following principles:

- *Growth*: The Committee recognises that a high allocation to "growth" assets/strategies is needed to achieve the long-term objective.

- *Control*: The Committee recognises that diversification can provide some protection against changing market conditions but that systemic risk cannot be diversified. The Committee therefore believes that greater dynamism within the investment strategy is desirable in order that the underlying strategy can be changed in response to changing market conditions.

- *Income*: The Committee recognises the emerging gap between income and benefit expenditure and hence the need to draw on investment income.

All day to day investment decisions have been delegated to a number of authorised investment managers. The strategic benchmark is reflected in the choice and mix of funds in which the Fund invests. The Fund's benchmark is consistent with the Pensions Committee's collective view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

Asset Allocation

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

Asset class	**Target allocation %**
UK/Global Equity	25
Multi Asset strategies	35
Absolute Return strategies	15
Property	5
Gilts/Investment grade bonds	17
Infrastructure	3
Total	**100**

Equity allocations will be managed using a combination of active and passive strategies. All other allocations will be managed on an active basis. The multi asset strategies will be permitted to invest in a range of asset classes. However, it is not expected that the underlying asset allocation in these strategies will remain static over time.

The Committee has agreed to introduce an allocation to local infrastructure. The prospective investment is an amount of up to £15 million and based on 31 March 2013 levels would be rounded to

3%. Allocations to infrastructure will be introduced as opportunities are identified. Each opportunity will be funded through the payment of additional contributions to the Fund rather than by reallocating existing assets.

The underlying target return of this strategy over the next 10 years is at least the return on long dated index linked gilts plus 3.5% p.a., and allows for the expected returns from the asset classes plus a conservative allowance for performance for active manager skill.

The allocation of assets to each manager, their respective benchmarks and performance targets are as follows:

Asset Class	Target allocation	Investment Manager/ product	Segregated / pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	12.5%	Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	6.25%	State Street Global Asset	Pooled	Passive	FTSE All World Equity Index
	6.25%	State Street Global Asset	Pooled	Passive	FTSE RAFI All World 3000 Index
Multi Asset Strategy	15%	Baillie Gifford (Diversified Growth Fund)	Pooled	Active	UK Base Rate plus 3.5%
	20%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3.5%
Absolute Return	15%	Ruffer	Segregated	Active	LIBOR+
Property	5%	UBS	Pooled	Active	IPD All Balanced Property Funds Weighted Average Index
Gilt/Investment Bonds	17%	Royal London	Segregated	Active	• 50% iBoxx £ non- Gilt over 10 years • 16.7% FTSE Actuaries UK gilt over 15 years • 33.3% FTSE Actuaries Index-linked over 5 years Plus 1.25%*
Infrastructure	3%	State Street Global Assets – Sterling liquidity Fund Cash is invested pending identification of a local infrastructure project.			

*0.75% prior to 1 November 2015

From time-to-time, particularly when implementing the changes to the strategic asset allocation, when markets are volatile or when dealing costs are high, the Committee may deviate from the long-term strategy on a temporary basis.

The Committee recognises that, while it is impossible to predict short-term market movements, it should use its reasonable judgement in such circumstances. For example, this could be applied with the aim of avoiding excessive dealing costs or reducing the impact of adverse market movements by spreading changes over a number of dealing dates. In doing so, the Committee also recognises that the Fund is intended to meet the liabilities as they emerge over the longer term and hence the normal default position is to be fully invested broadly in line with the strategic benchmark.

Fees

Fund managers are remunerated by an ad valorem scaled fee based on the market value at quarter end of the assets under management.

INVESTMENTS

Investments

The powers and duties of the Fund to invest monies are set out in the Local Government Pension Scheme (Management & Investment Funds) Regulations 2009. The Fund is required to invest any monies which are not required to pay pensions and other benefits and in so doing take account of the need for suitable diversified portfolio investments and the advice of persons properly qualified (including officers) on investment matters.

Types of Investment

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

The investment regulations also specify certain limitations on investments.

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

Realisation of investment

The majority of the Funds' investments are quoted and traded on major stock markets and may be realised relatively quickly if required. A proportion of the Funds' investments would take longer to realise, such as property but these represent no more than 5%.

Investment Management

The Investment Managers are each bound by either an Investment Management Agreement (IMA) or, in the case of investment in pooled funds, the relevant Fund Documentation that takes account of:

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

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

Investment Manager Controls

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

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

Reporting

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

RISK

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

Funding risks**:**

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

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.

In 2012, following the 2010 Actuarial Valuation and a full review of investment strategy commissioned from the Fund's investment adviser, the Pension Committee agreed to revise the investment strategy. The underlying allocation to growth assets following the review is: 80% in a mixture of equities, property and alternative assets/strategies with the remaining 20% in lower volatility bonds. Although this is not in line with a liability-matched position, it is intended to grow the value of the assets at a managed level of risk with manageable long-term costs for the Council.

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

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

Asset risks

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

The Committee manages asset risks as follows:

It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrains risk within the Committees' expected parameters.

The use of multi-asset and absolute return mandates recognises the expectation that risk will vary over time. By permitting the investment manager to not only invest in a diverse range of asset classes, but to vary the underlying asset distribution as market conditions change, the Committee expects that the pattern of returns will be smoothed.

By investing across a range of assets, including quoted equities and bonds; the Committee has recognised the need for some access to liquidity in the short term.

In appointing several investment managers and making appropriate use of passive management, the Committee has considered the risk of underperformance by any single investment manager.

Other provider risk

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

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

The Historic Position of Fund

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

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

Review

- The investment strategy is reviewed by the Pensions Committee, at least every three years following the actuarial valuation results or when changes are required.

- The current review is based on a full investment strategy review in 2012, the Actuarial Valuation 2013, a subsequent interim assessment of the valuation in 2014 and a review and on-going advice on asset allocation from the Fund's Investment Adviser.

SOCIAL ENVIRONMENTAL and ETHICAL CONSIDERATIONS

The Pensions Committee has carefully considered socially responsible investment in the context of its legal and fiduciary duties and obligations. In view of the objectives set out in this statement, the Pensions Committee takes the view that, non-financial factors should not drive the investment process to the detriment of the financial return of the Fund.

Whilst at this time the Pensions Committee has determined not to place any restrictions on Investment Managers for ethical, social and environmental reasons the Pensions Committee considers it appropriate for the Investment Managers to take such factors into account when considering particular investments.

The Pensions Committee also believes that it does not have the relevant expertise to make frequent assessment of the financial impact of companies' activities. To that extent, the Pensions Committee has a policy of non-interference and the Investment Managers have full discretion over day to day decision making.

CORPORATE GOVERNANCE AND VOTING POLICY

Corporate Governance Policy

The policy of the Havering Pension Fund is to accept the principles laid down in the Combined Code as interpreted by the Institutional Shareholders Committee 'Statement of Principles'.
In making investment decisions the Council will, through its Pension Fund Investment Managers, have regard to the economic interests of the Pension Fund as paramount and as such:

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

Beyond this, the Council will allow its Investment Managers full freedom with the day to day decision making.

The Pensions Committee will, where appropriate,

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

STOCK LENDING

The Committee has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the Committee has decided only to permit stock lending by the Fund's passive equity manager, State Street Global Advisors.
State Street Global Advisors has agreed to indemnify the Fund against any loss arising from insufficient collateral being posted as part of its stock lending programme.

The Committee will review its policy on stock lending from time to time.

Consultation and Publication

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

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

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

MYNERS Principles for Investment Decision Making

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

The Action the Council has taken to meet the recommendations made in the Myner's report has been updated to November 2015 and is available as an appendix to this statement.

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

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

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

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	18) Administrating authorities are required to publish a Governance Compliance Statement in accordance with CLG guidance.	The Governance Compliance Statement is included within the Annual Report and is available on the Council's website: www.havering.gov.uk (under Council, democracy and elections, council budgets and spending, then Pension Fund) or select the link to the pension's page below. Pension Fund page
	19) The fund's Administration Strategy documents should refer to all aspects of the committee's activities relevant to the relationship between the committee and the employing authorities.	In line with regulations, the fund currently does not have an administration strategy; consideration of adopting this strategy is reviewed regularly.
2. Clear objectives		**SUMMARY: FULLY COMPLIANT**
	The committee should:	As part of the Valuation process consideration is given, with full consultation of the fund's actuary, to:
(a) An overall investment objective (s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and these should be clearly communicated to advisors and investment managers.	1) demonstrate that in setting an overall objective of the fund it has considered: the fund's liabilities in the context of expected net contribution inflows; the adequacy of the fund's assets to meet its liabilities; the maturity profile of the fund's liabilities and its cash flow situation.	the fund's liabilities in the context of the expected net contribution inflows; adequacy of the assets to meet its liabilities; maturity profile and its cash flows;
	2) consider the nature of membership profiles and financial position of the employers in the fund and decide, on the advice of actuaries, whether or not to establish sub funds.	membership profiles; financial position of the employers and whether or not to establish a sub fund;
	3) seek to include the achievement of value for money and efficiency in its objectives and all aspects of its operation	value for money;
	4) with the **CFO** need to give consideration to the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The responsibility of the actuary to keep employer contribution rates as constant as possible over time is the primary means of achieving this.	and the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time.

Page 233

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
		The Fund's investment policies and objectives are laid out in the Funding Strategy Statement (FSS) and can be found on the Councils website, www.havering.gov.uk, council, democracy and elections, council budgets and spending, then pension fund or by selecting the link below. Pension Fund page
	5) consider its own appetite for risk and that of the employers in the fund when considering advice on the mix of asset classes and on active and passive management. Consider all assets classes currently available to members.	The Pensions Committee considers, in consultation with the fund's investment advisor, its own appetite for risk when setting the investment strategy and considers the mix of asset classes and weighs up the risk v return in considering whether the assets are managed on a passive or active basis. The Investment Strategy currently includes a mix of different asset classes which are managed actively and passively.
	6) take proper advice and should appoint advisors in open competition and set them clear strategic investment performance objectives. The committee should state how the advisors' overall performance will be measured and the relevant short, medium and longer term performance measurement framework. All external procurement should be conducted within the EU procurement regulations and the administrating authority's own procurement rules.	The Pensions Committee appoints external advisors in line with EU procurement rules and the administrating authorities own procurement rules. The committee states how performance is to be measured for the advisors and a service review is undertaken and reported to the committee annually.
	7) also demonstrate that it has sought proper advice, including from specialist independent advisors, as to how this might be expressed in terms of the expected or required annual return on the fund and how it should be measured against stated benchmarks.	After full consultation with the Council's Actuary and Investment advisors a clear financial and therefore fully measurable investment objective for the fund has been set.
	8) consider when it would be desirable to receive advice based on an asset/liability study and make appropriate arrangements.	The Pensions Committee commission the fund's investment advisor and actuary to undertake an asset/liability study as appropriate, when compiling the investment strategy

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	9) evaluate the split between equities and bonds before considering any other asset class. It should state the range of investments it is prepared to include and give reasons why some asset classes may have been excluded. Strategic asset allocations decision should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objectives.	All asset classes were considered as part of the investment strategy review process and the range of investments are included in the Fund's SIP.
	10) have a full understanding of the transaction-related costs incurred, including commissions, and have a strategy for ensuring that these costs are properly controlled.	Transaction costs are disclosed in the statement of accounts.
	11) Understanding transaction-related costs should be a clear consideration in letting and monitoring a contract and where appropriate, independent and expert advice should be taken, particularly in relation to transition management.	Understanding transaction costs are considered and where appropriate expert advice would be sought. Costs are considered in the decision making process when any changes to the investment strategy are under discussion.
	12) The use of peer group benchmarks should be for comparison purposes only and not to define the overall fund objective.	The committee uses the services of WM Performance Measurers for independent monitoring of performance against benchmarks. Peer group benchmark performance is used for comparison purposes only.
3. Risk and liabilities		**SUMMARY: FULLY COMPLIANT**
a) In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.	The committee should:	
b) These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	1) set an overall investment strategy for the fund that: represents its best judgement of what is necessary to meet the fund's liabilities given its understanding of the contributions likely to be received from employer (s) and employees; takes account of the committee's attitude to risk, and specifically its willingness to accept underperformance due to market conditions.	A full investment strategy review was carried out following the actuarial valuation results in 2007 and reassessed following the 2010 Valuation results.

Page 235

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	2) ensure that its investment strategy is suitable for its objectives and takes account of the ability to pay of the employers in the fund.	The Fund has formulated its own asset allocation based on identified liabilities particular to the fund. The Fund's investment strategy was adopted having considered the members attitude to risks and are covered in the SIP and FSS.
	3) consider the extent to which the cash flow from the fund's assets should attempt to match the liabilities and the relevant timing. It should also consider the volatility of returns it is prepared to accept.	
	4) be aware of its willingness to accept underperformance due to market conditions. If performance benchmarks are set against relevant indices, variations in market conditions will be built in, and acceptable tolerances above and below market returns will be stated explicitly. Benchmarks are likely to be measured over periods of up to seven years.	The Fund in aggregate has a liability related benchmark (strategic benchmark). However for individual mandates, the fund managers have a specific benchmark (tactical benchmark) and a performance target that may be based on broad indices or composites. The targets are shown in the Fund's SIP.
	5) believe that regardless of market conditions, on certain asset classes, a certain rate of return is acceptable and feasible.	
	6) state whether a scheme specific benchmark has been considered and established and what level of risk, both active and market risk, is acceptable to it.	Specific benchmarks are considered as part of any investment strategy review and monitored on an on-going basis.
	7) receive a risk assessment in relation to the valuation of its liabilities and assets as part of the triennial valuations. Where there is reasonable doubt during performance monitoring of the fund about valuation of assets and liabilities the **CFO** should ensure that a risk assessment is reported to the committee, with any appropriate recommendations for action to clarify and/or mitigate the risks.	The Fund receives a risk assessment as part of the Valuation process with full consultation of the Fund's Actuary. Performance is monitored and reported to the committee on a quarterly basis and includes recommendations for action where appropriate. Liabilities are considered as part of the triennial valuations and mid valuations, however cash flow is monitored monthly and reported to committee quarterly.
	8) at the time of the triennial valuations, analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities. The committee should also ask this question of its actuaries and other advisors during discussions on performance.	

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	9) use reports from internal and external auditors to satisfy itself about the standards of internal control applied to the scheme to its administration and investment operations. Ensuring effective internal control is an important responsibility of the **CFO.**	The external auditor's opinion is included in the Pension Fund Annual Report. Internal control audits for pensions are undertaken frequently by internal auditors and are reported to Audit Committee. Any identified issues would be reported to the Pensions Committee. Audited Internal Control reports are submitted by the Investment Managers and checked by officers for matters of concerns.
	10) The fund's Statement of Investment Principles should include a description of the risk assessment framework used for potential and existing investments.	The Pension Fund's Statement of Investment Principles includes a description of the risk assessment framework.
	11) Objectives for the overall fund should not be expressed in terms that have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.	Objectives for the overall fund are set having regard to: the advisability of investing fund money in a wide range of investments; the suitability of particular investments and types of investments and the results of asset/ liability modelling.
	12) The Annual Report of the pension fund should include an overall risk assessment in relation to each of the fund's activities and factors expected to have an impact on the financial and reputational health of the fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of any residual risk.	The Pension Fund Annual Report includes an overall risk assessment in relation to each of the fund's activities and includes a copy of the Risk Register. This will be reported periodically to the Pensions Committee.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
4. Performance assessment	**Investments**	**SUMMARY: FULLY COMPLIANT**
a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors	The committee should:	
b) Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members	1) explicitly consider, for each asset class invested, whether active or passive management would be more appropriate; where it believes active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies; if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection.	As part of any investment strategy review the Pension Fund considered and adopted its own asset allocation in full consultation with the Fund's investment advisor, it considered and has adopted active and passive management and appropriate targets and risk controls set.
	2) explicitly consider, in consultation with its investment manager (s), whether the index benchmarks are appropriate, and in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies	Benchmarks are set in agreement with the fund's investment manager (s)
	3) Where active management is selected, divergence from a benchmark should not be so constrained as to imply index tracking (i.e. passive management) or so wide as to imply unconstrained risk.	
	4) Performance targets in relation to benchmark should be related to clear time periods and risk limits and monitoring arrangements should include reports on tracking errors.	Performance monitoring reports are presented to the committee quarterly and cover the latest quarter, rolling one year and three year performance. Where appropriate fund managers will report tracking errors. Each Fund Manager presents their performance reports to the committee on alternate quarters, on each other alternate quarters they meet with officers. Exceptions to this are the pooled managers and the absolute return manager who reports to officers and the committee once a year.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	5) Although returns will be measured on a quarterly basis a longer time frame (three to seven years) should be used to assess the effectiveness of the fund management arrangements and review the continuing compatibility of the asset/liability profile.	The asset /liability profile is considered at each triennial valuation.
	6) Investment activity in relation to benchmark should be monitored regularly to check divergence and any impact on overall asset allocation strategy.	In addition to officer reports, the investment advisor monitors and reports quarterly to the Pension Committee on performance, personnel, process and organisational issues of fund managers. The fundamental risk of the investment strategy not delivering the required – net of fee- return is measured quarterly in terms of the overall financial objective.
	7) Returns should be obtained from specialist performance agencies independent of the fund managers.	The Pension Fund uses the services of WM performance measurers who independently report against the overall fund and individual manager returns on a quarterly basis. WM returns are monitored against fund manager returns and discrepancies are investigated. WM also produce an annual performance report.
	8) Investment manager returns should be measured against their agreed benchmark and variations should be attributed to asset allocation, stock selection, sector selection and currency risk, all of which should be provided by an independent performance measurement agency	Each quarter, WM measure fund manager returns against their agreed benchmarks and variations are attributed to asset allocation and stock selection. Relative risk is also measured and the degree of the manager deviating from the benchmark is included in the WM report.
	9) In addition to the overall fund returns the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed (e.g. equities by country, fixed interest by country and type etc.).	The Pension Fund does not measure fund returns on an asset class basis because the focus is on how individual manager performance contributes to the overall fund performance. However the weightings in each asset class are monitored and reported.
	10) The use of peer group benchmarks (such has CIPFA/WM) may not be appropriate for directing a mandate of a manager insofar as they infer a common asset liability structure or investment requirement. Such benchmarks can be used for comparative information.	WM performance returns against peer group benchmarks are used for comparison purposes only.

Page 240

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	11) The mandate represents the instruction to the manager as to how the investment portfolio is to be managed, covering the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.	The mandate agreed with the investment manager includes how it is to be managed and covers the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.
	Advisors 12) The committee should devise a performance framework against which to measure the cost, quality and consistency of advice received from its actuaries. It is advisable to market test the actuarial service periodically.	
	13) It is necessary to distinguish between qualitative assessments (which are subjective) and quantitative reviews which require the compilation of series of data and are therefore more long term by nature.	
	14) Consultants should be assessed on a number of issues including the appropriateness of asset allocation recommendations, the quality of advice in choosing benchmarks and any related performance targets and risk profiles. The quality and appropriateness of the investment managers that are recommended and the extent to which advisors are proactive and consistent in recommending subsequent changes.	Annual service assessments are undertaken for the services provided the Fund's actuary and advisors. They are measured against a set of criteria adopted by the Pension Committee.
	15) When assessing managers and advisors it is necessary to consider the extent to which decisions have been delegated and advice heeded by officers and elected members	
	Decision-making bodies 16) The process of self-assessment involves both officers and members of the committee reviewing a range of items, including manager selection, asset allocation decisions, benchmarking decisions, employment of consultants and best value outcomes;	Pensions Committee performance is reviewed as part of the Annual Report. Performance can be measured by the success or otherwise of the strategy put in place and the individual performance of investment managers appointed by the committee, and full compliance with governance

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	17) the objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved.	requirements including attendance at all training sessions.
	18) The committee should set out its expectations of its own performance in its business plan. This could include progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to administration of the committee's business such as:	The Business Plan sets out the expectations of the committee.
	19) attainment of standards set down in CIPFA's knowledge and skills framework and code of practice; achievement of required training outcomes; achievement of administrative targets such as dates for issuing agendas and minutes.	Achievements of training outcomes are self-assessed by the Pensions Committee. Targets such as dates for issuing agendas and minutes are strictly adhered to. Achievements of administrative targets are reported in the Pension Fund Annual report.
	20) This assessment should be included in the Fund's Annual Report.	The assessment of the committee expectations and training are included in the Annual Report
5. Responsible ownership **Administrating authorities should:**		**SUMMARY: PARTIALLY COMPLIANT**
a) recognise, and ensure that their partners in the investment chain adopt, the FRC's UK Stewardship Code	1) Policies regarding responsible ownership must be disclosed in the statement of investment principles which must be contained the annual report.	Policies on Social Environmental and ethical considerations are disclosed in the SIP, a copy of which is also included in the Pension Fund Annual Report.
b) include a statement of their policy on responsible ownership in the statement of investment principles	2) Responsible ownership should incorporate the committee's approach to long term responsible investing including its approach to consideration of environmental, social and governance issues.	The Pension Committee has considered socially responsible investments and the view has been taken that non-financial factors should not drive the investment process to the detriment of the financial return of the fund.
c) report periodically to scheme members on the discharge of such responsibilities.	3) The committee should discuss the potential for consideration of environmental, social and governance issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performances.	Over the long term, the Pensions Committee requires the investment managers to consider, as

Page 241

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	4) Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues e.g. LAPFF.	part of the investment decisions, socially responsible investment issues and the potential impact on investment performance.
	5) It is important to ensure that through the terms of an explicit strategy that an authority's policies are not overridden, negated or diluted by the general policy of an investment manager.	The SIP is distributed to fund managers so that they are aware of the overall strategy. Fund managers are included in the consultation process if there are major changes.
	6) Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisors to assist compliance in engagement. Measuring effectiveness is difficult but can only be achieved by open monitoring of action taken	Fund managers have been given delegated authority to vote in accordance with their proxy voting policies. Fund Managers report voting activity quarterly and made available for the Pensions Committee to review.
	7) The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the committee's policy.	Consideration of compliance will need to be given for future appointments. For existing investment managers, where applicable they are compliant or work is well underway to becoming compliant.
	8) The committee should engage with, and consider the implications of, the UK Stewardship Code on a comply or explain basis	The Committee has in the past accepted the principles laid down in the Institutional Shareholders Statement of Responsibilities and the policy is set out in the current version of the SIP. The UK Stewardship Code which has superseded this will need to be considered by the committee.
	9) The committee should also ensure that external partners in the investment chain (advisors, consultants, investment managers, etc.) adopt the UK Stewardship Code insofar as it relates to their activities on behalf of the fund.	The UK Stewardship Code is directed to institutional investors (asset owners and asset managers with equity holdings in UK listed companies) and should apply on a comply-or-explain basis. Currently all of the funds asset managers and service providers have adopted the code.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	10) The United Nations Environment Programme Finance Initiative (UNEP FI) has published Principles for Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the six principles and regularly assess themselves against a comply or explain framework.	The UNPRI is voluntary and applies on a comply or explain basis. All but two of the fund's asset managers have adopted the code. One of these managers is in the advanced stage of completing the documentation and the other manager is actively considering joining in 2016.
6. Transparency and reporting **Administrating authorities should:** **a) act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives** **b) provide regular communication to scheme members in the form they consider most appropriate.**	The committee should:	**SUMMARY: FULLY COMPLIANT**
	1) ensure that its Governance Compliance Statement is maintained regularly. It should actively challenge any non-compliance and be very clear about its reasons for this and be comfortable with the explanations given.	The Governance Compliance Statement is considered and reviewed by the Pensions Committee on an annual basis. Any non-compliance is reported and necessary actions included.
	2) have a comprehensive view of who its stakeholders are and the nature of the interests they have in the scheme and the fund. There should be a clearly stated policy on the extent to which stakeholders will take a direct part in the committee's functions and those matters on which they will be consulted. 3) build an integrated approach to its own governance and to communicating this and all other aspects of its work to its stakeholders.	The Governance Compliance Statement includes a statement on the extent to which stakeholders will take a direct part in the Pensions Committee's functions. Stakeholders are consulted and notified on major strategic and legalisation matters. The work of the Pensions Committee is publicly available on the Councils website at www.havering.gov.uk, follow links for council & democracy, committees, then pension committee. There is also a dedicated page on the Council's website for the Pension Fund under the page for council and democracy. How the work is communicated to its stakeholders is included in the fund's Communication Strategy, select link below to see the pensions page on the councils website. Pension Fund page

Page 243

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	4) seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. The full range of available media should be considered and used as appropriate.	Havering has undertaken partnership working with the London Pension Fund Authority who have developed a website to enable pension sharing best practices across the London Boroughs at www.yourpension.org.uk. Havering Pension Fund is also members of the CIPFA Pensions Network and the London Pension Fund Forum which are good sources of sharing best practices.
	5) compare regularly its annual report to the regulations setting out the required content and, if the report does not fully comply with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible.	The Pension Fund Annual Report is prepared in accordance with Regulation 57 of the LGPS Regulations 2013 which applied from 1 April 2014. It is also prepared in accordance with guidance published by CIPFA/PRAG in August 2014.
	6) The Funding Strategy (FSS), the Statement of Investment Principles (SIP) and the Governance Compliance Statement are core source documents produced by the fund to explain their approach to investments and risks.	The FSS, the SIP and the Governance Compliance Statement are available on the Council's website at www.havering.gov.uk and are included on a dedicated page for the Pension Fund under the link for council and democracy, or select the link below. This page also includes the Pension Fund's Communication Strategy .Where applicable reference to all these documents is made in other publications. Pension Fund page
	With regard to the FSS and SIP, they should: 7) contain delegation process and the roles of officers, members, external advisors and managers should be differentiated. The process by which the overall fund allocation process has been determined and include reference to assumptions as to future investment returns; mandates given to managers should describe fees structures, scale of charges, whether ad valorum or fixed, performance element built in, stating the implications for risk control; copies should be made available and its availability made clear in publications.	The policies shows the delegation process and the roles of officers, members, external advisors and how managers are differentiated; the process by which the fund allocation has been determined and includes references to assumptions on future returns; mandates given to each manager are described, including fees; and implications for risk control.

Page 244

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	With regard to the Governance Compliance Statement it must include:	
	8) information on whether administrating authority delegates, the whole or part function; if it does delegate must state frequency of meetings, terms of reference, structure and operational procedures. It must also include whether the committee includes representatives of employing authorities and if so, whether they have voting rights.	The Governance Compliance Statement includes information on the administering authorities delegation process and functions delegated to the Pensions Committee. It also includes the frequency of meetings, terms of reference, structure and operational procedures.
	9) details of the extent to which it complies with CLG guidance. Where the statement does not comply, reasons must be given. A copy of the statement must be sent to the CLG.	The Governance Compliance Statement also includes a table which shows the extent of compliance with CLG guidance and a copy has been sent to the CLG.
	With regard to the fund's Communication Strategy it must:	
	10) set out the administering authority's policy on: the provision of information and publicity about the scheme to members, representatives of members and employing authorities; the format, frequency and method of distributing such information or publicity; the promotion of the scheme to prospective members and their employing authorities.	The Communication Statement includes: the administrating authorities' policy on provision of information and publicity about the scheme, it also includes the format, frequency and method of distribution of such information.

London Borough of Havering

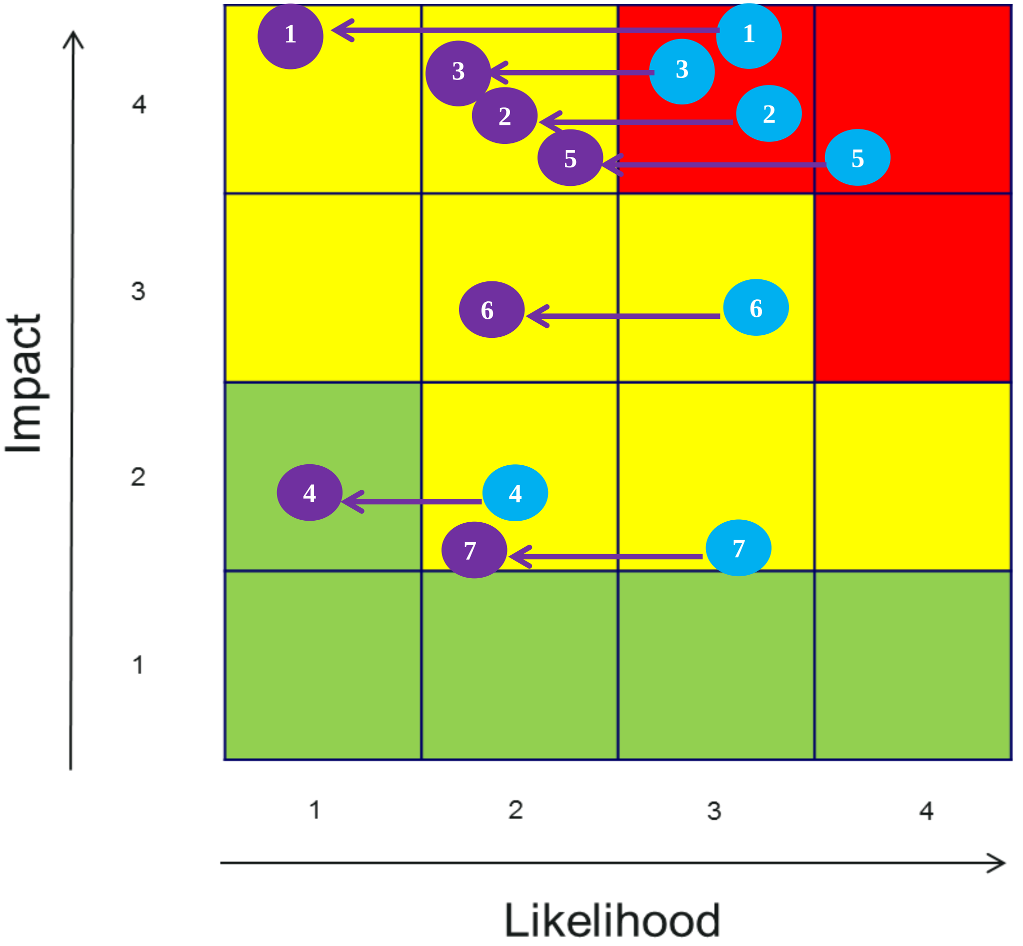
Pension Risk Register

Page 246

JUNE 2015

Inherent and Residual Risk Score Matrix

nherent and Residual Risk Score Matrix



Ref	Risk Title
1	**Inaccurate three yearly actuarial valuation**
2	**Incorrect / Inappropriate Investment Strategy**
3	**Failure of investments to perform in-line with growth expectations**
4	**Failure to comply with legislative requirements**
5	**Inability to manage/ govern the Pension Fund and associated services**
6	**Failure to effectively "sign up" new employers / members**
7	**Pension Fund Payment Fraud**

Inherent Risk Score

Residual Risk Score

Definitions:
Inherent Risk Score: The inherent risk score is the assessment of a risk in terms of impact and likelihood, without consideration of the mitigations in place.

Residual Risk Score: This is the assessment of the risk, at the current point in time, having considered the mitigations in place.

Pension Fund Risk Register						
Ref	**Risk Title**	**Cause & Effect**	**Inherent Score**	**Mitigations & Action to take forward**	**Residual Score**	**Risk Owner**
1	**Inaccurate three yearly actuarial valuation**	**Causes:** ▪ Inappropriate assumptions used by actuary in calculations for valuation ▪ Poor quality data provided from LB of Havering ▪ Personal data not maintained to a high standard (gaps/incorrect) ▪ Actuary's own assumptions are not robust or reflective **Effects:** ▪ Deficit position worsens ▪ Employers pay/ continue to pay incorrect contribution percentages ▪ Increase in employer contributions ▪ Potential for Council Tax increases ▪ More investment risk may be	**Impact 4 Likelihood 3**	**Mitigations in place:** ▪ Robust, open tender process in place for appointment of actuary ▪ Valuation completed by a qualified professional actuary ▪ Some assumptions for valuation dictated by statute ▪ Actuarial assumptions are challenged by officers ▪ Valuation assumptions subject to External Audit review ▪ Local Government benchmarking/comparisons of assumptions ▪ Annual review of actuary performance undertaken by Pensions Committee **Actions to take forward:** None identified at this point.	**Impact 4 Likelihood 1**	**Director of Finance (oneSource)**

Page 249

Pension Fund Risk Register						
Ref	**Risk Title**	**Cause & Effect**	**Inherent Score**	**Mitigations & Action to take forward**	**Residual Score**	**Risk Owner**
		taken to bridge a gap that doesn't actually exist ▪ Potential for a more risk averse Investment Strategy when more risk is required.				
2	**Incorrect / Inappropriate Investment Strategy**	**Causes:** ▪ Lack or poor professional investment advice given ▪ Investment advice is not taken ▪ Lack of understanding and awareness (Pension Committee) ▪ Lack of clear risk appetite ▪ Based upon inaccurate actuarial valuation **Effects:** ▪ Pension deficit not reduced ▪ Potential for financial loss ▪ Growth opportunities are not maximised	**Impact 4 Likelihood 3**	**Mitigations in place:** ▪ Robust, open tender process in place for appointment of Investment Advisor ▪ Investment Advisor performance is annually reviewed by the Pensions Committee ▪ Close working relationship is encouraged between actuaries and investment advisor in the development of the investment strategy ▪ Investment strategy continually assessed as part of the quarterly monitoring process by the Pensions Committee	**Impact 4 Likelihood 2**	**Director of Finance (oneSource)**

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
		▪ Could generate inefficiencies and unintended risks if not fully understood. ▪ More investment risk may be taken to bridge a gap that doesn't actually exist ▪ Potential for a more risk averse Investment Strategy when more risk is required. ▪ Potential for Council Tax increases		▪ Liabilities analysed during inter-valuation period **Actions to take forward:** ▪ Pensions Committee Training / Awareness - working towards full compliance with CIPFA Knowledge and Skills framework ▪ Consider using a further independent advisor for challenge to investment advice		

Page 250

Pension Fund Risk Register						
Ref	**Risk Title**	**Cause & Effect**	**Inherent Score**	**Mitigations & Action to take forward**	**Residual Score**	**Risk Owner**
3	**Failure of investments to perform in-line with growth expectations**	**Causes:** ▪ Poor Fund Manager selection ▪ Underperformance by fund manager ▪ Poor investment advice provided to LB of Havering or not taken ▪ Negative financial market impacts ▪ External factors / increased market volatility (i.e. 2008) ▪ Delays in the implementation of the strategy will reduce the effectiveness of the strategy and may impact growth **Effects:** ▪ Deficit reduction targets are not met ▪ Potential for losses to be incurred ▪ Increased employer contributions	**Impact 4 Likelihood 3**	**Mitigations in place:** ▪ Robust, Fund Manager selection process ▪ Diverse portfolio to reduce negative effects from market volatility ▪ Quarterly monitoring of fund performance and asset class split is presented by the Fund's Investment Advisor at Pension Committee. ▪ Fund performance and asset class split is reviewed quarterly by investment advisor/Pensions Committee and officers. ▪ Fund Managers attend Pension Committee and officer meetings to present quarterly performance reports **Actions to take forward:** ▪ Pensions Committee	**Impact 4 Likelihood 2**	**Director of Finance (oneSource)**

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
				Training/Awareness – working towards full compliance with CIPFA Knowledge and Skills framework		
4	**Failure to comply with legislative requirements**	**Causes:** ▪ Lack of appropriate skills/knowledge to fulfil requirements ▪ Unaware of legislative changes ▪ Development of key person dependency ▪ Poor/inaccurate interpretation of the regulations ▪ Failure/inability to administer the pension scheme appropriately. **Effects:** ▪ Reputational damage ▪ Potential for financial penalties ▪ Potential for costly legal challenges ▪ Increase in employer contributions,	**Impact** **2** **Likelihood** **2**	**Mitigations in place:** ▪ Financial requirements are subject to external and internal audit ▪ Experienced personnel in place ▪ Legislative changes are reported to the Pensions Committee where required ▪ Active participation in Legislative Consultations where appropriate ▪ External and in house training provided where required ▪ Member of the CIPFA Pensions Network ▪ Participate in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness ▪ Statutory policy documents	**Impact** **2** **Likelihood** **1**	**Director of Finance (oneSource)** **And** **Director of Exchequer & Transactional Services (oneSource)**

Page 252

Pension Fund Risk Register						
Ref	**Risk Title**	**Cause & Effect**	**Inherent Score**	**Mitigations & Action to take forward**	**Residual Score**	**Risk Owner**
		delayed due to non-compliance.		reviewed annually to ensure compliance with legislation ▪ Access to specialist pension media sources **Actions to take forward:** None identified at this point.		

Page 253

Pension Fund Risk Register						
Ref	**Risk Title**	**Cause & Effect**	**Inherent Score**	**Mitigations & Action to take forward**	**Residual Score**	**Risk Owner**
5	**Inability to manage/govern the Pension Fund and associated services**	**Causes:** ▪ Ineffective / lack of succession planning ▪ Loss of corporate knowledge/expertise ▪ Long term sickness absence ▪ Increase in staff turnover ▪ Lack of knowledge sharing protocols ▪ No knowledge base to store experiences/information ▪ Lack of resource (Staffing/financial) ▪ ICT failure ▪ Poor pension fund administration ▪ Poor monitoring of employer financial status ▪ Inappropriate investment accounting **Effects:** ▪ Negative impacts upon service	Impact 4 Likelihood 4	**Mitigations in place:** • Bond or guarantee reviews in place and reviewed every three years as part of valuation process • Procedure manual in place for Pension Administration • Attendance at local forum meetings • Attendance at Annual Pension Managers conference • Members of Local Authority Pensions Web • Participates in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness • Attendance at accounting seminars/training • Guidance from external agencies (some will be at a cost) • Pension Fund uses the service of an external custodian to verify	Impact 4 Likelihood 2	**Director of Finance (oneSource)** **And** **Director of Exchequer & Transactional Services (oneSource)**

Page 254

Pension Fund Risk Register						
Ref	**Risk Title**	**Cause & Effect**	**Inherent Score**	**Mitigations & Action to take forward**	**Residual Score**	**Risk Owner**
		provision ▪ Time delays ▪ Potential for breach of legislation ▪ Financial penalties/ other sanctions ▪ Reputational Damage ▪ Increased costs due to "buying in" external expertise ▪ Employer defaults ▪ Qualified opinion on the accounts by external auditor		asset values and performance • Pension Fund accounts subject to external audit. • Continuous pension training • ICT Disaster Recovery in place **Actions to take forward:** • Succession planning required for key personnel • Review / update procedure manuals • Option being assessed for joint administration with Newham to build resilience • Introduce employer covenants checks • Strengthen process for Bond Reviews • Development of workflow/process management • Development of Training Matrix • Establishment of a statutory Local		

Page 255

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
				Pension Board to assist the administering authority in effective and efficient governance of the Havering pension Fund		
6	**Failure to effectively "sign -up" new employers / members**	**Causes:** ▪ Delays in internal processing of documentation ▪ Poor communications with stakeholders ▪ Lack of understanding by employers with regard to their responsibilities ▪ Lack of signed agreements from Employers **Effects:** ▪ Delays in collection of contribution from the employers/members ▪ Impacts cash flow ▪ Potential for litigation ▪ Employer contribution assessment	**Impact 3 Likelihood 3**	**Mitigations in place:** • Escalation to Heads of Service • Script in place to deliver to new Academy employers, with feedback process in place (minuted) • Database maintained on all contact details for LGPS communications. • Monthly schedules of data submitted to Pensions Administration Team • Electronic file of required documents forwarded to new employers **Actions to take forward:** • Review of internal processes	**Impact 3 Likelihood 2**	**Director of Exchequer & Transactional Services (oneSource)**

Page 256

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
		can become out of date ▪ Potential breach of regulations ▪ Incorrect records of new members ▪ External Audit Opinion on internal controls ▪ Employers liabilities may fall back onto other employers and ultimately local taxpayers.		(particularly legal input) • Completion of TUPE Process Manual • Completion of Admission Policy manual • Template admission agreement awaiting legal clearance		
7	**Pension Fund Payment Fraud**	**Causes:** ▪ Pension overpayments arising as a result of non-notification in change of circumstances ▪ Internal staff fraud ▪ Staff acting outside of their levels of authorisation **Effects:** ▪ Financial loss ▪ Reputational damage of Pension Administration team and Council ▪ Litigation / investigation ▪ Internal disciplinary	**Impact 2 Likelihood 3**	**Mitigations in place:** • Participate in the National Fraud Initiative (bi-annually) • Process is in place to investigate return of payment by banks. • All pension calculations are peer checked and signed off by senior officer • Segregation of duties within the Pensions Administration Team • Segregation of duties between Payroll and Pensions Administration Team	**Impact 2 Likelihood 2**	**Director of Exchequer & Transactional Services (oneSource)**

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
				• 100% address check undertaken for deferred pensions **Actions to take forward:** • Consider implementation of a monthly mortality check • Investigating usage of external agencies (i.e. Western Union) (for overseas payments)		

Page 258

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 20 SEPTEMBER 2016

Subject Heading:	**PUBLIC SERVICE PENSIONS ACT – SECTION 13 VALUATION**
CMT Lead:	**Andrew Blake Herbert**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Accountant*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Section 13 of the Public Services Pensions Act requires the Government Actuary's Department to report on whether LGPS funding valuations meet the aims of section 13
Financial summary:	Actuary fees met by the Pension Fund

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

Havering will be clean and its environment will be cared for	[]
People will be safe, in their homes and in the community	[]
Residents will be proud to live in Havering	[x]

SUMMARY

The Governments Actuary Department (GAD) was appointed by Department of Communities and Local Government (DCLG) to review the 2013 valuations, as a 'dry run' to assess whether the aims of section 13 were being met.

This report, as attached as Appendix A, includes the results of the 'dry run' exercise that was undertaken by GAD.

RECOMMENDATIONS

That the committee note the results of the 'dry run' reports produced by GAD as attached in Appendix A.

REPORT DETAIL

Background

1. GAD was appointed by DCLG to report under section 13 of the Public Service Pensions Act 2013 on whether the Local Government Pension Scheme (LGPS) meet the aims of Section 13.

2. Section 13 (4) requires GAD to report on whether four main aims are achieved:

    a) **Compliance** – to confirm the fund's valuation has been carried out in accordance with the scheme regulations.
    b) **Consistency** – to confirm the fund's valuation is not inconsistent with other valuations..
    c) **Solvency** – to confirm employer contributions is set at an appropriate level to ensure the solvency of the pension fund, and
    d) **Long Term cost efficiency** – to confirm employer contributions are sufficient to meet benefit accrual and existing deficit.

3. Section 13 will apply for the first time to the 2016 round of fund valuations and the report is expected to be published in the summer of 2018.

4. GAD was asked to carry out a 'dry run' section 13 report using the 2013 fund valuations. The purpose being to provide information about the tests and metrics used for assessment and an indication of how funds performed against the chosen metrics

5. The 'dry run' report has no statutory force but various areas have been identified where the aims of section 13 are potentially not being met and where GAD may have sought further information and engagement before recommending remedial steps if section 13 had applied at 31 March 2013.

6. The results of the 'dry run' report can be seen as attached in Appendix A, together with the dry run supporting appendices (Appendix B).

7. 'Dry Run' results summary for the LGPS:

   a) As anticipated, no **compliance** issues were found.
   b) GAD reported that they had found both presentational and evidential **inconsistencies** in the valuation approach adopted by LGPS funds, and in assumptions used and disclosure of results.
   c) GAD reported concerns over securing **solvency** for two closed transport funds. A number of funds raised amber flags on one or more metrics examined under solvency. No funds were red flagged.
   d) GAD named two funds with whom they would have wanted to have further discussion over the **long term cost efficiency** of their funding plans. For funds advised by Hymans, no red flags were raised on either solvency or long term cost efficiency reflecting the robust and transparent nature of the funding plans put in place by LGPS Administering Authorities.
   e) GAD clarified that **meeting solvency and long term cost-efficiency requirements takes precedence** in the regulatory framework over the desirability of stable contributions.

8. **'Dry Run' results impact on the Havering Pension Fund**

   a) A number of amber flags were raised under the criteria for **solvency.** Using the Scheme Advisory Board (SAB) standardised basis, ten funds with the lowest funding levels were highlighted, one of which was the Havering Pension Fund (Appendix A, section 5 refers).
   b) The report states whilst poorly funded is not necessarily sufficient, by itself, to warrant a recommendation for remedial action had section 13 been in force, they may have engaged with these funds to better understand how they intend to improve their funding position.
   c) The fund actuaries are in the process of preparing the 2016 valuations, when section 13 will be in force. Hymans will have consideration of the outcome of the dry run report as part of this process and officers and the Fund's Actuary will report back to the committee when the 2016 valuations results are finalised

IMPLICATIONS AND RISKS

Financial implications and risks:

Section 13 does not prescribe what remedial steps may be recommended but the report mentions that they could include,

- That the administering authority strengthens scheme governance, for example, making changes to the Pensions Committee or Local pension Board
- That a revised approach be taken at the next valuation
- That the current valuation is reopened and changes made to employer contributions in advance of the next valuation.

The financial implications of any remedial action is not clear at this stage but members need to be aware of the risks and the importance of adopting a funding plan for improving the funding level over time. Members and officers to work with the Funds Actuary in formulating the funding plan that demonstrates that the employer contribution rate has been set at an appropriate level to ensure solvency.

Legal implications and risks:

Given this exercise is non-statutory there are no immediate legal implications in considering the outcome of the dry run exercise,, however, it may highlight matters which will be the subject of recommendations or directions under section 13 if any adverse commentary on the dry run is not rectified for this year's statutory process.

Human Resources implications and risks:
None arise from this report.

Equalities implications and risks:
None arise from this report as this report is required to be published in order to comply with Local Government Pension Scheme Regulations 2013.

BACKGROUND PAPERS

Background Papers List
As per the attachments to this report

Government Actuary's Department

LGPS ENGLAND AND WALES

Section 13 Dry Run Report

Date: July 2016

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Contents

1 Executive summary

In connection with the local fund valuations of the Local Government Pension Scheme (LGPS) from 2016, section 13 of the Public Service Pensions Act 2013 requires the Government Actuary to report on whether four main aims are achieved:

- compliance: whether the fund's valuation is in accordance with the scheme regulations
- consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS
- solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund
- long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

We have carried out a "dry run" section 13 analysis based on the 2013 local valuations.

Compliance

We found no evidence of material non-compliance.

Consistency

We found inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.

Solvency

For the two closed passenger transport funds, we are not aware of any plan in place to ensure solvency. Had this not been a dry run exercise we would have engaged with the administering authorities to discuss the need for plans to be put in place.

A number of amber flags were raised under this heading for the open funds. We may have engaged with some of these administering authorities to discuss the reasons behind these flags. However, none were red-flagged.

Long term cost efficiency

For the following funds we would have engaged with the administering authority to investigate in more detail whether the aims of section 13 were met:

- Royal County of Berkshire Pension Fund
- Somerset County Council Pension Fund

We may also have engaged with some other administering authorities who had a significant combination of amber flags if section 13 had applied as at 31 March 2013.

Future analysis

Based on our on-going experience of reporting under section 13(4) (including this dry run) we may change or add considerations, criteria, tests or metrics to the analysis in the future.

1.1 The Government Actuary has been appointed by the Department of Communities and Local Government to report under section 13 of the Public Service Pensions Act 2013 in connection with the Local Government Pension Scheme ("LGPS" or "the Scheme") in England and Wales. Section 13 provides for a review of LGPS funding valuations and employer contribution rates to check that they are appropriate and requires remedial steps to be taken where scheme managers consider appropriate.

Aims of section 13

1.2 Section 13 will apply for the first time to the 2016 round of ninety-one separate fund valuations for the LGPS. Specifically, in relation to each fund within the LGPS, section 13 requires the Government Actuary to report on whether four main aims are achieved:

> compliance: whether the fund's valuation is in accordance with the scheme regulations

> consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS

> solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund

> long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

Purpose of the dry run

1.3 The Department of Communities and Local Government ("DCLG") has asked the Government Actuary's Department ("GAD") to carry out a "dry run" based on the round of LGPS valuations completed as at 31 March 2013 to demonstrate how we may have approached our analysis had section 13 applied to those valuations. This dry run report is designed to help those administering authorities and their actuarial advisors to prepare for the 2016 round of valuations with some knowledge about how GAD might approach reporting under section 13 following the 2016 round of valuations.

1.4 Based on our on-going experience of reporting under section 13(4) (including this dry run) we may change or add considerations, criteria, tests or metrics to the analysis in the future.

1.5 In this dry run report we make no specific recommendations for remedial steps in relation to solvency and long term cost efficiency, as section 13 did not apply as at 31 March 2013. We do however highlight areas for some specific funds where the aims of section 13 are potentially not being met, and where we may have then sought further information and engagement before recommending remedial steps if section 13 had applied at 31 March 2013.

1.6 As part of the dry run analysis, we indicate in this report how the process following production of a draft report under section 13 might have progressed had section 13 applied in terms of engagement with administering authorities prior to finalisation of the report.

1.7 In some cases, the data initially provided or disclosed in the valuation report raised additional questions following our initial analysis and concerns raised were allayed following the provision of further information. This serves to highlight the importance of clear disclosure in the valuation reports and accurate provision of data from the local authorities and the actuarial firms.

Compliance

1.8 We found no evidence of non-compliance with the scheme regulations.

Consistency

1.9 Under the heading of consistency, we have found inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.

1.10 The primary areas GAD has analysed are:

> Common contribution rates

> Average actual contributions vs common contribution rate

> Assumptions

1.11 We have viewed consistency in two ways:

> Presentational. Those aspects of the valuations for which we consider there is no particular justification for differences in disclosure between different funds. This includes results disclosures (i.e. presenting the key results in a similar format) and agreeing a common understanding of terms such as the common contribution rate ("CCR"[1]) even if these are not explicitly defined in regulations.

> Evidential. Those aspects of the valuations that should be consistent except where supported by evidence or local circumstances (e.g. some demographic assumptions). On financial assumptions, we believe that local circumstances may merit different assumptions (e.g. current and future planned investment strategy, different financial circumstances) leading to different levels of prudence adopted. However, in some areas, it appears that the choice of assumptions is highly dependent on the "house view" of the particular firm of actuaries advising the fund, with only limited evidence of allowance for local circumstances.

[1] CCR has been replaced by primary and secondary rates in regulation 62.

1.12 There is a wide range of reasonable assumptions for uncertain future events, such as the financial assumptions. For the avoidance of doubt, we have not concluded that any of the approaches, taken in isolation, are unreasonable. However the approaches are not consistent with each other, and it is not clearly explained in valuation reports whether the relevant assumptions, and hence differences in those assumptions between funds, are solely driven by local circumstances. Furthermore, there would also seem to be no common understanding of what constitutes "prudence" for the purposes of regulation 58 of the Local Government Pension Scheme Regulations 2013, and its reference to CIPFA guidance.

1.13 We are not expecting the immediate prescription of assumptions. Nevertheless readers of the reports might expect there to be consistency, and that transparent comparisons can be made between funds.

1.14 We are only able to conclude under section 13(4)(b) of the PSPS Act 2013 Act that 'the valuation has been carried out in a way which is not inconsistent with other valuations', if the valuations are carried out in consistent manner. Currently, in our opinion, the valuations are not carried out consistently.

1.15 We appreciate that there are significant challenges to achieving full consistency, particularly in the short term. In the longer term, we would however expect a narrowing of the range of assumptions used, where local experience cannot be used to justify differences.

1.16 We are grateful to the SAB Cost Management and Contributions sub-committee and the SAB Secretariat for developing a standard basis and metrics to enable comparisons between funds and we recommend that the valuation results on the SAB standard basis and associated "dashboard" metrics are published in valuation reports to allow readers to make like for like comparisons.

1.17 We recommend that the four actuarial firms who advise administering authorities in carrying out funding valuations should seek to agree a standard way of presenting relevant disclosures in their valuation reports to better facilitate comparison.

Solvency

1.18 Under the heading of solvency, we found that a number of our assessment measures were triggered by the two Passenger Transport funds, West Midlands Integrated Transport Authority Pension Fund and South Yorkshire Passenger Transport Authority Pension Fund. These funds are both closed to new entrants. In particular we might have sought to better understand whether the relevant administering authorities had a plan in place to ensure that the fund continues to meet benefits due in an environment of no future employer contributions being available, if section 13 had applied as at 31 March 2013.

1.19 A number of amber flags were raised under solvency for the open funds. Had section 13 applied, we may have engaged with some of these administering authorities, particularly where there was significant combination of amber flags, to discuss reasons behind these flags. However, none were red-flagged. Please see table 5.2 for further detail.

1.20 We have also highlighted the ten funds with the lowest funding level on the Scheme Advisory Board's ("SAB") standardised basis. Had section 13 applied, we may have engaged with some of these funds to better understand how they intended to improve their funding position.

1.21 We believe it is important that administering authorities and other employers understand the potential cost, so that they can understand the affordability of potential future contribution requirements.

1.22 The local valuations and our calculations underlying this dry run report are based on specific sets of assumptions about the future. To help the understanding of the potential for volatility in contributions, we estimate that the aggregate impact on contributions under a financial crisis scenario, similar to the 2008 financial crisis, is an increase in contributions of between £1.7 and £4.9 billion per year (compared with the actual outturn from the 2013 valuations of £6.6 billion).

1.23 A more detailed description of the tests and triggers alluded to in the tables below can be found in the relevant sections of this report and are not repeated in this executive summary.

Table 1.1: Funds with a material combination of amber and/or red flags

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
SOUTH YORKSHIRE PTA[2]	25.2 (1)	114%	NO	100%	+5%	+3%	N/A
WEST MIDLANDS ITA[1]	25.1 (2)	100%	NO	100%	+5%	+7%	N/A

Long term cost efficiency

1.24 For the following funds we would have engaged with the administering authority to investigate whether the aims of section 13 were met, had section 13 applied:

- Royal County of Berkshire Pension Fund
- Somerset County Council Pension Fund

[2] The ***Employer Default*** measure is shown as N/A because there are no statutory employers participating in these two closed funds.

Table 1.2: Funds with a material combination of amber and/or red flags

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
BERKSHIRE	5.9 (78)	4%	34	6%	-2%	-0.5%	-3	No
SOMERSET	5.9 (80)	5%	24	6%	-1%	0.0%	0	No

1.25 A number of other funds have triggered flags. We do not consider that these funds are failing to meet the aims of section 13, but we may have encouraged these other funds to provide further information regarding the relevant measures. Please see table 6.2 for further details.

2 Introduction

This report summarises GAD's "dry run" review of the actuarial valuations of the Local Government Pension Scheme as at 31 March 2013 as if section 13 of the Public Service Pensions Act 2013 had been in force at that date with the Government Actuary as the appointed person under section 13.

We have looked at a range of metrics to identify exceptions. Remedial steps may have been recommended where there is a potentially material or potent combination of negative outcomes against those metrics which is not satisfactorily explained or justified. Failure against one metric may not by itself always lead to remedial action being recommended.

2.1 This report is addressed to the DCLG. GAD has prepared this paper to set out the results of our review of the 2013 funding valuations of LGPS as if section 13 of the Public Service Pensions Act 2013 ("section 13" of "the Act") as it pertains to LGPS had been in force as at 31 March 2013.

2.2 Section 13 will apply for the first time to the valuations as at 31 March 2016. This report therefore does not have authority under the Act. Instead it serves as a "dry run" to assist stakeholders in preparing for the 2016 round of LGPS funding valuations, and is hereafter referred to as the "dry run report". We expect our report following the 2016 valuations to comprise more in-depth analysis in some areas. In relation to exceptions (this term is described below), we refer to action we may have taken had section 13 applied as at 31 March 2013.

2.3 Subsection (4) of section 13, requires the Government Actuary to report on whether the four main aims are met:

> <u>Compliance</u>: whether the fund's valuation is in accordance with the scheme regulations

> <u>Consistency</u>: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within LGPS

> <u>Solvency</u>: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund

> <u>Long term cost efficiency</u>: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

2.4 Section 13, subsection (6) states that if any of the aims of subsection (4) are not achieved,

a) the report may recommend remedial steps;

b) the scheme manager must—

(i) take such remedial steps as the scheme manager considers appropriate, and

(ii) publish details of those steps and the reasons for taking them;

c) the responsible authority may—

(i) require the scheme manager to report on progress in taking remedial steps;

(ii) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

Purpose of this paper

2.5 The purpose of this paper is to provide stakeholders with information about:

> the tests and metrics we have used to assess whether the aims of compliance, consistency, solvency and long term cost efficiency have been achieved;

> an indication of how funds performed against the chosen metrics; and

> how we determined exceptions.

2.6 This report is designed to help those authorities prepare for valuations from 2016 onwards, when section 13 will be in force.

2.7 This paper will be of relevance to LGPS stakeholders including DCLG, the Chartered Institute of Public Finance & Accountancy (CIPFA), administering authorities and other employers, actuaries performing valuations for the funds within LGPS, SAB (or, where relevant, interim board) and HM Treasury (HMT).

Exceptions

2.8 Exceptions occur where funds appear to be materially out of line with other funds, or out of line with what we might have expected based on our judgement and our interpretation of solvency and long term cost efficiency.

2.9 We have had regard to the particular circumstances of some potential exceptions, following consultation with the fund actuary. This informal consultation has enabled us to explore in greater depth the issues identified and understand the fund's specific circumstances. We may conclude in the light of that engagement that administering authorities and employers are taking appropriate action and that the outcome is reasonable given the circumstances.

2.10 We have looked at a range of metrics to identify exceptions under solvency and long term cost efficiency. We have expressed these in the form of green, amber or red flags. In broad terms, a red flag or a combination of amber flags would tend to indicate a need for further investigation and/or engagement with the relevant administering authority and their actuary. The trigger points for these flags are based on a combination of absolute measures and measures relative to the bulk of the funds in scope.

2.11 More detail is provided in the solvency and long term cost efficiency chapters and appendices. It should be noted that these flags are intended to highlight areas for further investigation, but green does not indicate a clean bill of health and also that the fact we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.

2.12 Local valuation outputs depend on both the administering authorities' Funding Strategy Statements and the actuary's work on the valuation. We have reported where valuation outcomes raised concerns in relation to the aims of section 13, but it is not our role to express an opinion as to whether that conclusion was driven by the actions of authorities or their actuary, or other stakeholders.

2.13 The Environment Agency Closed Pension Fund is different from other LGPS funds, in that the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs[3], thus guaranteeing the security of these benefits. In general, the fund has been excluded from the analyses that follow.

Remedial steps

2.14 Section 13 does not prescribe what remedial steps may be recommended, but for example they could include:

> that the administering authority consider and report on an issue (e.g. if a closed scheme has no plan in place);

> that the administering authority strengthens scheme governance, for example by making changes to a section 101 committee or pensions board;

> that a revised approach be taken at the next valuation; and

> that the current valuation be reopened and changes made to employer contributions in advance of the next valuation.

2.15 Remedial steps may be recommended if there is a potentially material combination of negative outcomes against those metrics which is not satisfactorily explained or justified. Failure against one metric may not by itself lead to remedial steps being recommended.

2.16 This report contains specific reference to those funds considered to be exceptions. Had section 13 been in force for the 2013 valuations, we would have expected to engage with the relevant administering authorities named in this report.

2.17 Our aim in producing this dry run report is to encourage, where appropriate, administering authorities to consider taking steps to change the approach taken to the 2016 valuation.

[3] http://www.lgpsboard.org/images/Valuations2013/EnvironmentAgencyClosedFund2013.pdf

Limitations

2.18 We recognise that the use of data and models has limitations. For instance, the data that we have from valuation submissions and publicly available financial information is likely to be significantly less detailed than that available to funds. Our risk assessment framework enables us to broadly assess scheme risks and decide on our engagement with schemes on an indicative basis.

2.19 Although much of the analysis, particularly the calculations we have undertaken, is approximate, we consider it to be sufficient for the purposes of identifying which funds could be subject to recommendation for remedial steps. While the measures used should not represent targets, these measures help us determine whether a more detailed review is required; for example, we may have highlighted where multiple measures are triggered amber for a given fund.

2.20 For some measures under solvency and long term cost efficiency, data were not available. We expect that data will be available for the section 13 work following the 2016 valuations.

2.21 We have not considered the impact of post valuation events except to the extent that these may have already been taken into account in the valuation disclosures.

Data on contributions paid

2.22 We were provided by the actuarial firms with data on average contributions expected to be paid into each fund. We also had access to data published by DCLG in their LGPS funds local authority data: 2014 to 2015[4] (referred to elsewhere in this report as SF3 statistics). Both sources covered only the 2014-15 financial year (being the first year in which rates recommended in the 2013 valuations were expected to apply).

2.23 There were significant differences between these two data sources. For some funds, this may be further complicated by the stepping process (in which employers gradually shift towards the contribution rate recommended by the actuary over a few years). This meant we had to decide which was likely to be more reliable. We opted to base our calculations on the SF3 statistics.

2.24 Our data request following the 2016 valuations will seek further information, including all three years' expected contributions from 2017/18 – 2019/20. The discrepancy highlighted above is a cause for concern, which we aim to eliminate by requesting clearer explanations of what the data contains from the actuarial firms.

Standardised basis

2.25 There are significant areas of inconsistency highlighted in chapter 4, which make meaningful comparison of valuation results set out in local valuations reports unnecessarily difficult.

[4] https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-local-authority-data-2014-to-2015

2.26 To address this, we have restated the results on two bases:

> The standard basis established by the SAB

> A market consistent basis derived by us

2.27 The market consistent basis is a best estimate as at 2013, based on our views of returns on each asset class across the Scheme. We expect this basis to change for 2016, based on conditions at the time and any other relevant factors.

2.28 The restatement to these standardised bases has been done approximately. For example, if results for different employers within a particular fund are produced on different bases, our restatement process would not be able to pick up that level of detail, and the restated results could be incorrect if a particular employer was material in relation to the overall assets and liabilities of that fund.

2.29 The data request for the 2016 exercise will explicitly ask for liabilities expressed on the SAB standard basis which should eliminate this potential error.

2.30 This use of standardisation does not imply the bases are suitable to be used for funding purposes:

> The SAB standard basis is not market consistent, and

> The market consistent basis is a best estimate (while regulations and CIPFA guidance call for prudence to be adopted). This best estimate is based on the average investment strategy for the overall scheme, and so will not be pertinent to any given fund's particular investment strategy. Further this does not take into account any anticipated changes in investment strategy that may be planned/in train.

Sensitivities

2.31 The local valuations and our calculations underlying this dry run report are based on specific sets of assumptions about the future. Some of our solvency measures are stress tests but these are not intended to indicate a worst case scenario. Following the 2016 valuations, we intend to illustrate a range of potential outcomes. In the solvency chapter of this report we have added an indication of the estimated aggregate impact on contributions under a financial crisis scenario, similar to the 2008 financial crisis.

Future review

2.32 Based on our on-going experience of reporting under section 13 (including this "dry run" report) we may add additional considerations, criteria, tests or metrics to the analysis. It is currently our intention that we will endeavour to consult (informally or formally), or forewarn, stakeholders in advance of adding such additional considerations/criteria.

2.33 We note that following the publication of the dry run report, there may be changes to regulations and approaches to local valuations in 2016 and beyond, which could lead to changes in the items analysed, under consistency for example, in future iterations of section 13.

Appendices

2.34 Appendices are contained in a separate document.

2.35 We reproduce section 13 of the Act in Appendix A. Other relevant regulations are reproduced in Appendix B. Appendix C contains a description of data provided. Appendix D contains descriptions of standardised assumptions used. Appendix E contains descriptions of measures for Solvency. Appendix F contains a table of measures under solvency by fund. Appendix G contains descriptions of measures for long term cost efficiency. Appendix H contains a table of measures for long term cost efficiency by fund.

Other important information

2.36 GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this report. No decisions should be taken on the basis of this report alone without having received proper advice. GAD is not responsible for any such decisions taken.

2.37 In performing this analysis, we are grateful for helpful discussions with and cooperation from

- CIPFA
- DCLG
- Fund actuaries
- HMT
- LGPS Scheme Advisory Board

2.38 We have conducted our analysis assuming that the *desirability* of stable contributions is subordinate to the *requirement* for solvency and long term cost efficiency under the relevant legislation.

2.39 We understand and assume that there is no regulatory authority assumed by or conferred on the Government Actuary in preparing this or any future section 13 report, and neither does the appointment to report under section 13 give the Government Actuary any statutory power to enforce actions on scheme managers (or others).

2.40 The modelling underlying this report has been prepared in accordance with the Board for Actuarial Standards' Technical Actuarial Standard M: Modelling. The report complies with TAS M and TAS R: Reporting.

3 Compliance with scheme regulations

We have relied on statements of compliance with regulations by, and professional requirements on, the actuaries performing the valuations of LGPS funds. We have performed some spot checks of compliance, and investigated further where funds are identified as exceptions using the metrics set out in this chapter.

We found **no evidence of non-compliance** with the scheme regulations.

3.1 There are a number of regulations that administering authorities are required to comply with when producing their respective valuation reports, funding strategy statements ("FSS") and statements of investment principles ("SIP").

3.2 These regulations are:

> Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 for valuation reports;

> Regulation 35 of the same regulations for FSSs; and

> Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2009 for SIPs.

3.3 These regulations include reference to CIPFA guidance on preparing and maintaining a FSS in the LGPS 2012.

3.4 From 1 April 2014, regulations 62 and 58 of the Local Government Pension Scheme Regulations 2013 will apply to valuation reports and FSSs respectively. We understand that CIPFA's FSS guidance is being updated prior to the completion of the 2016 valuations. However, for the purposes of this report compliance has been checked against the regulations in place as at 31 March 2013, as detailed above[5]. We are not lawyers and have performed these checks as a lay reader of the regulations. We do not expect changes in regulations to have a material effect to this approach.

Selecting funds based on predetermined criteria

3.5 In order to investigate the compliance of fund documentation with the regulations detailed above the following two approaches have been used:

1) Selecting funds based on predetermined criteria; and

2) A risk based approach.

[5] Copies of the regulations listed on this page can be found in Appendix B of this report.

3.6 When selecting funds based on predetermined criteria, we selected funds that were different types of authority (i.e. a London Borough, a Welsh Authority, a County Council and a Metropolitan Authority) and which used different actuarial advisors.

3.7 The four selected funds under these criteria were:

> The Royal Borough of Kensington and Chelsea Pension Fund (*Barnett-Waddingham*);

> Cardiff and Vale of Glamorgan Pension Fund (*Aon Hewitt*);

> Northamptonshire Pension Fund (*Hymans Robertson*); and

> South Yorkshire Pension Fund (*Mercer*).

3.8 All four funds had short paragraphs in each of the respective documents stating that they had complied with the relevant regulations.

Selecting funds using a risk based approach

3.9 Under the second, risk based approach, compliance was investigated where funds were flagged as being of concern based on comparison with other funds' solvency or long term cost efficiency.

3.10 The four open funds that were of interest to us are:

> Royal County of Berkshire Pension Fund;

> Somerset County Council Pension Fund;

> London Borough of Waltham Forest Pension Fund; and

> City of Westminster Pension Fund.

3.11 All four funds had short paragraphs in each of their respective documents stating that they had complied with the relevant regulations.

3.12 The two closed funds that were of interest to us are:

> South Yorkshire PTA Pension Fund; and

> West Midlands ITA Pension Fund.

3.13 Both these funds were flagged under our solvency measures. A check of the funds' respective valuation reports showed that both had stated that they had complied with the relevant regulations.

3.14 Therefore we would need to make further enquiries with the funds to determine how they meet the requirements of regulation 36(5) of the LGPS 2008 Administration regulations, in particular the requirement for employers to pay sufficient contributions, expressed as a percentage of pay of the active members, to ensure the solvency of the fund.

3.15 In our data request for the 2016 section 13 work we intend to seek additional information on how funds ensured compliance with the relevant regulations and request that this be consistently documented between actuarial advisors.

4 Consistency between valuations under the scheme regulations

We viewed consistency in two ways: presentational and evidential. Whilst none of the individual approaches taken are unreasonable, they are not consistent and some variations in assumptions seem to be based on only limited allowance for local circumstances.

We found inconsistencies in the following areas, and recommend the four actuarial firms agree an approach to ensuring each is more readily comparable following 2016 and subsequent valuations.

> The interpretation of the common contribution rate (CCR) disclosed in the valuations

> Average actual contributions vs CCR

> The assumption concerning the amount of commutation

> The assumption for expected pensioner mortality

> The derivation of discount rates used for the valuations

> The assumption used for real earnings growth

If a similar approach is retained for the 2016 valuations we expect to still conclude that the consistency aim of section 13 is not met. Therefore, as an initial step towards achieving consistency, we recommend that the four actuarial firms seek to agree a standard way of presenting the valuation results on the SAB standard basis and associated "dashboard" metrics and other relevant disclosures to permit comparison in their valuation reports. GAD is prepared, if required, to help facilitate these discussions.

4.1 Section 13(4)(b) states that actuarial valuations should be carried out in a way which is not inconsistent with other valuations completed under the scheme regulations. For the purposes of this section GAD has, in line with Explanatory note 88 of the Act, taken "other valuations" to mean valuations of other funds within LGPS as at 31 March 2013.

4.2 After consultation with stakeholders, we interpreted "not inconsistent" to mean that methodologies and assumptions used, in conjunction with adequate disclosure in the report, should allow comparison by a reader of the reports. We explain this further below. We found that there are inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.

4.3 In this chapter we highlight inconsistencies that cannot, in our opinion, be justified by local considerations. The primary areas GAD has analysed are:

> Common contribution rates ("CCR")

> Average actual contributions vs CCR

> Assumptions

We also looked at smoothed asset values and post valuation asset returns as aspects adopted by one of the firms, but not the others.

4.4 In many cases we found there is a considerable amount of consistency in these areas between funds advised by the same firm of actuarial advisors, but inconsistency between funds advised by different actuarial advisors. In this chapter, where relevant, we refer to the relevant actuarial firms as a proxy to listing out the funds that those actuarial firms advise. The charts in this chapter clarify the actuarial firm advising each fund.

4.5 We consider that readers of LGPS valuation reports might expect there to be consistency, and that transparent comparisons can be made between funds.

4.6 We have viewed consistency in two ways:

> Presentational. Those aspects of the valuations for which we consider there is no particular justification for differences in disclosure between different funds. This includes results disclosures (i.e. presenting the key results in a similar format) and agreeing a common understanding of terms such as CCR[6], even if these are not explicitly defined in regulations.

> Evidential. Those aspects of the valuations that should be consistent except where supported by evidence or local circumstances (e.g. some demographic assumptions). On financial assumptions, we believe that local circumstances may merit different assumptions (e.g. current and future planned investment strategy, different financial circumstances) leading to different levels of prudence adopted. However, in some areas, it appears that the choice of assumptions is highly dependent on the "house view" of the particular firm of actuaries advising the fund, with only limited evidence of allowance for local circumstances.

4.7 There is a wide range of reasonable assumptions for uncertain future events, such as the financial assumptions. For the avoidance of doubt, we have not concluded that any of the approaches, taken in isolation are unreasonable. However the approaches are not consistent with each other, and it is not clearly explained in valuation reports whether the relevant assumptions, and hence differences in those assumptions between funds, are solely driven by local circumstances. Furthermore, there would also seem to be no common understanding of what constitutes "prudence" for the purposes of regulation 58 (reproduced in Appendix B) of the scheme's regulations and its reference to CIPFA guidance.

[6] CCR has been replaced by primary and secondary rates in regulation 62.

4.8 In the case of LGPS, a scheme split into a number of different funds, inconsistencies in the approach to doing the valuation and the way in which assumptions are set, hinders transparency.

4.9 We have illustrated the effects of inconsistencies by restating the local valuation results on a standardised basis specified by the SAB (the SAB standard basis) and also on a market consistent, best estimate basis derived by us. In Chart 4.6 later in this chapter, we set out the relative rankings on 2013 local bases and the SAB standard basis for each fund. Publication of results on SAB's standardised basis will improve the ability of a reader to be able to make comparisons, but does not in itself address the inconsistencies on which section 13 requires us to comment.

4.10 We can only conclude under section 13(4)(b) of the PSPS Act 2013 Act that 'the valuation has been carried out in a way which is not inconsistent with other valuations', if the valuations are carried out in consistent manner. Currently, in our opinion, the valuations are not carried out consistently.

4.11 We acknowledge that there are significant challenges to achieving consistency, particularly in the short term under existing regulations. In the longer term, we would expect a narrowing of the range of assumptions used, where local experience cannot be used to justify differences.

4.12 As an initial step towards achieving consistency, we recommend that the valuation results on the SAB standard basis and associated "dashboard" metrics are published in valuation reports to allow readers to make like for like comparisons.

Differences in interpretation of 'common contribution rate'

4.13 Regulation 36 of the LGPS (Administration) Regulations 2008[7] states that:

> An actuarial valuation must contain a rates and adjustments certificate;

> The rates and adjustments certificate must specify:

- o The common rate of employers' contributions; and
- o Any individual adjustments

Where the common rate of employers' contribution is defined as:

"the amount which, in the actuary's opinion, should be paid to the fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members."

4.14 The funds advised by Aon Hewitt and Mercer have interpreted this to mean that the CCR should be set as a fund's standard contribution rate ("SCR") in respect of future accrual. Under this approach any contributions required in respect of existing deficits are recorded as individual adjustments for each employer.

[7] Regulation 36 is reproduced in Appendix B.

4.15 Funds advised by Barnett Waddingham and Hymans Robertson have interpreted the legislation to mean that a fund's CCR should be equal to its SCR plus any contributions required in respect of deficit. Any individual adjustments therefore reflect only the differences between employers contributing to a given fund.

4.16 It is not possible to compare the CCR for all funds. There is a clear inconsistency in how the CCR is interpreted.

4.17 We recommend that the four actuarial firms seek to agree a standard way of presenting contribution rates and other relevant disclosures to permit comparison. We acknowledge that new regulations specify the terms primary and secondary contributions rates and that CCR will no longer be relevant. However, the general principle that the four actuarial firms should interpret these terms consistently, and by reference to contributions actually received, remains valid.

Average actual contributions vs common contribution rate

4.18 Regulation 36(6)(b) of the Local Government Pension Scheme (Administration) Regulations 2008[8] states that when calculating a fund's CCR the actuary must have regard to the desirability of maintaining as nearly constant a common rate as possible. We expected to see a relationship between the actual contributions paid over a given period and the CCR, but found we were not able to reconcile the two for most funds.

4.19 This "stability clause" is one of a number of reasons why employers are not necessarily required to pay the CCR derived in the fund's local valuation report, Other reasons include varying historical liabilities by employer and different contribution rates for scheduled bodies (due to variation in covenant quality). In some cases, if required contribution rates increase, actual contributions can taper towards the required contribution rate over a number of years.

4.20 Employers may also pay additional lump sum contributions as set out in the rates and adjustments certificate of their local valuation report. This is a common practice amongst many employers, reflecting their specific cash flow situation at a given point in time. These lump sums could, in addition to the employer's regular contributions, lead to total contributions exceeding the fund's CCR.

4.21 In practice, the approach to setting contributions varies according to actuarial firm.

4.22 In particular, Hymans Robertson state in their reports that:

The CCR "does not represent the rate which any one employer is actually required to pay, nor is it the average of the actual employer rates". Hymans Robertson "undertake an asset-liability modelling exercise that investigates the effect on the Fund of possible investment scenarios that may arise in the future. An assessment can then be made as to whether long term, secure employers in the Fund can stabilise their future contribution rates (thus introducing more certainty into their future budgets) without jeopardising the long-term health of the Fund."

[8] See Appendix B

4.23 Funds advised by Mercer adopt a different discount rate assumption for future service, as set out in paragraph 4.50. This implies a different methodology for recommending rates, but the actual rates recommended to Mercer-advised funds are typically the same as the recommended rates.

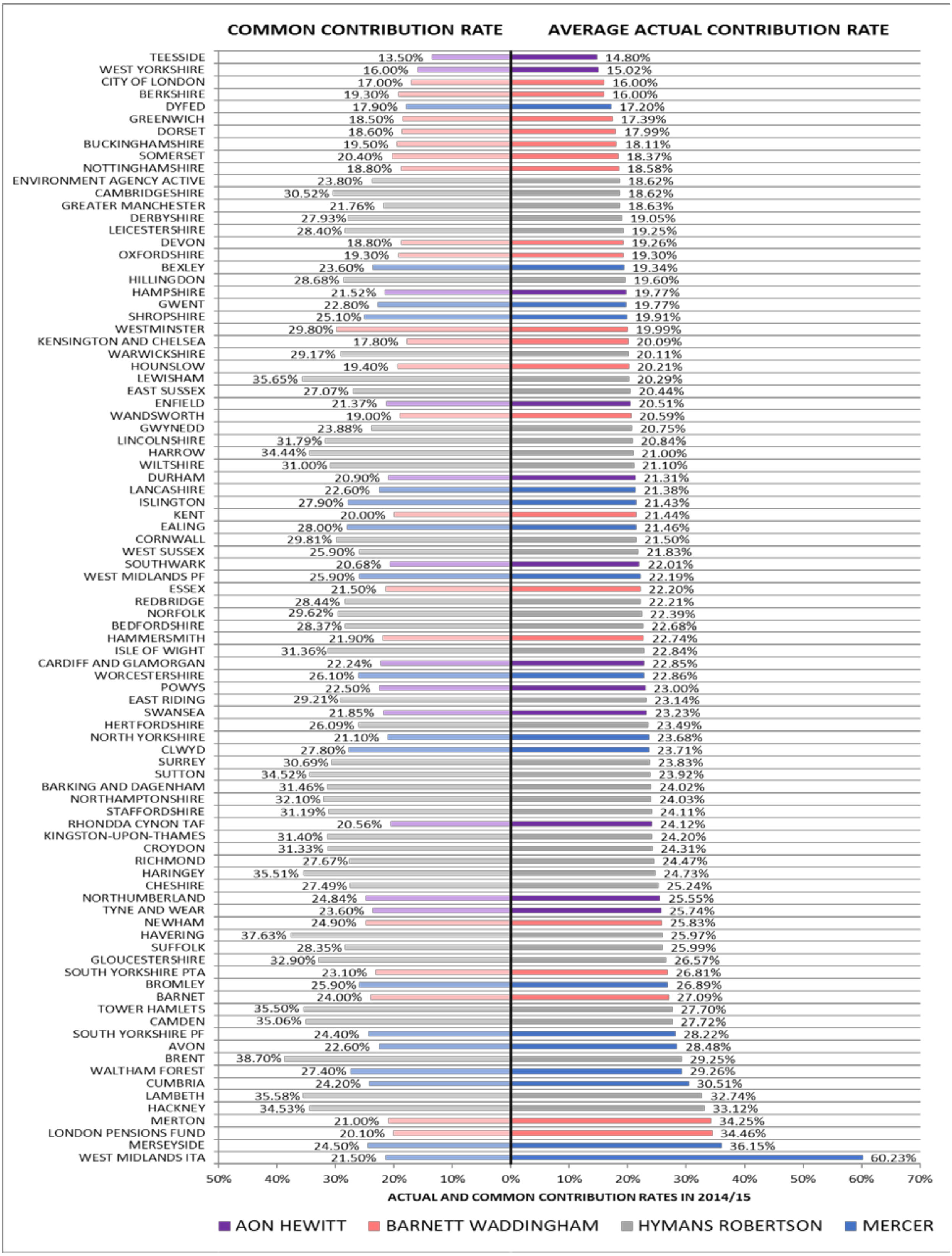
4.24 Funds advised by Aon Hewitt and Barnett Waddingham generally use a single discount rate for both past and future service liabilities.

4.25 The following chart shows the difference between actual 2014/15 employer contributions, derived from SF3 statistics[9], and the common contribution rate specified in the fund's local valuation report. For the purposes of the following chart, the CCR is taken to be the sum of the standard contribution rate and any additional contribution rate in respect of deficit. Whilst we understand that there is a stepping process through which contributions move towards the recommended rates, we found that the relationship between the CCR and contributions actually paid by employers was difficult to interpret, regardless of which firm the fund in question is advised by.

4.26 This inconsistency makes it unnecessarily difficult for a reader to be able to understand the results of the valuation and to be able to interpret and compare those results with other funds. We understand that the CCR will no longer be required as a disclosure under revised regulations from 2016. However, we believe it is imperative that the primary and secondary rates that are required under new regulations should relate directly to the contributions recommended to be paid by the actuary (over a suitable period), and consistently reported, to enable comparisons to be made.

[9] Actual contributions include lump sum contributions referred to in paragraph 4.19.

Chart 4.1: Average actual contributions vs. common contribution rates



Use of smoothed asset values

4.27 20 of the 21 funds advised by Barnett Waddingham used smoothed asset values to calculate funding ratios in their 2013 actuarial valuations, where the smoothing period was the six month period from 1 January 2013 to 30 June 2013. This is not consistent with other funds who have used the actual market value of assets as at the valuation date of 31 March 2013.

4.28 In all cases the smoothed asset value was lower than the market value of assets at 31 March 2013. However we do not consider this to introduce bias because in other circumstances the opposite could be true and as mentioned in paragraph 4.44, Barnett Waddingham also set their discount rate according to prevailing market conditions over the six months straddling the valuation date.

Use of post valuation asset returns to calculate future contribution rates

4.29 The 18 funds advised by Mercer took account of market conditions after the valuation date when calculating future contribution rates. All other funds used market conditions as at 31 March 2013. The reasoning for this approach given by Mercer is:

"Since 31 March 2013 there have been significant changes in the financial market position. In particular there has been an increase in gilt yields, which underpin the assessment of the past service liability values and therefore the long term funding target. As the new contribution rates are effective from 1 April 2014, if required, it is appropriate to allow for this improvement as part of the stabilisation of contribution requirements for individual employers."

4.30 This tends to lead to lower contribution rates than they would have otherwise been.

Pension commutation assumptions

4.31 Scheme regulations and HM Revenue and Customs (HMRC) rules allow members to commute a percentage of their pension, reducing the annual amount of pension they receive for a lump sum on retirement.

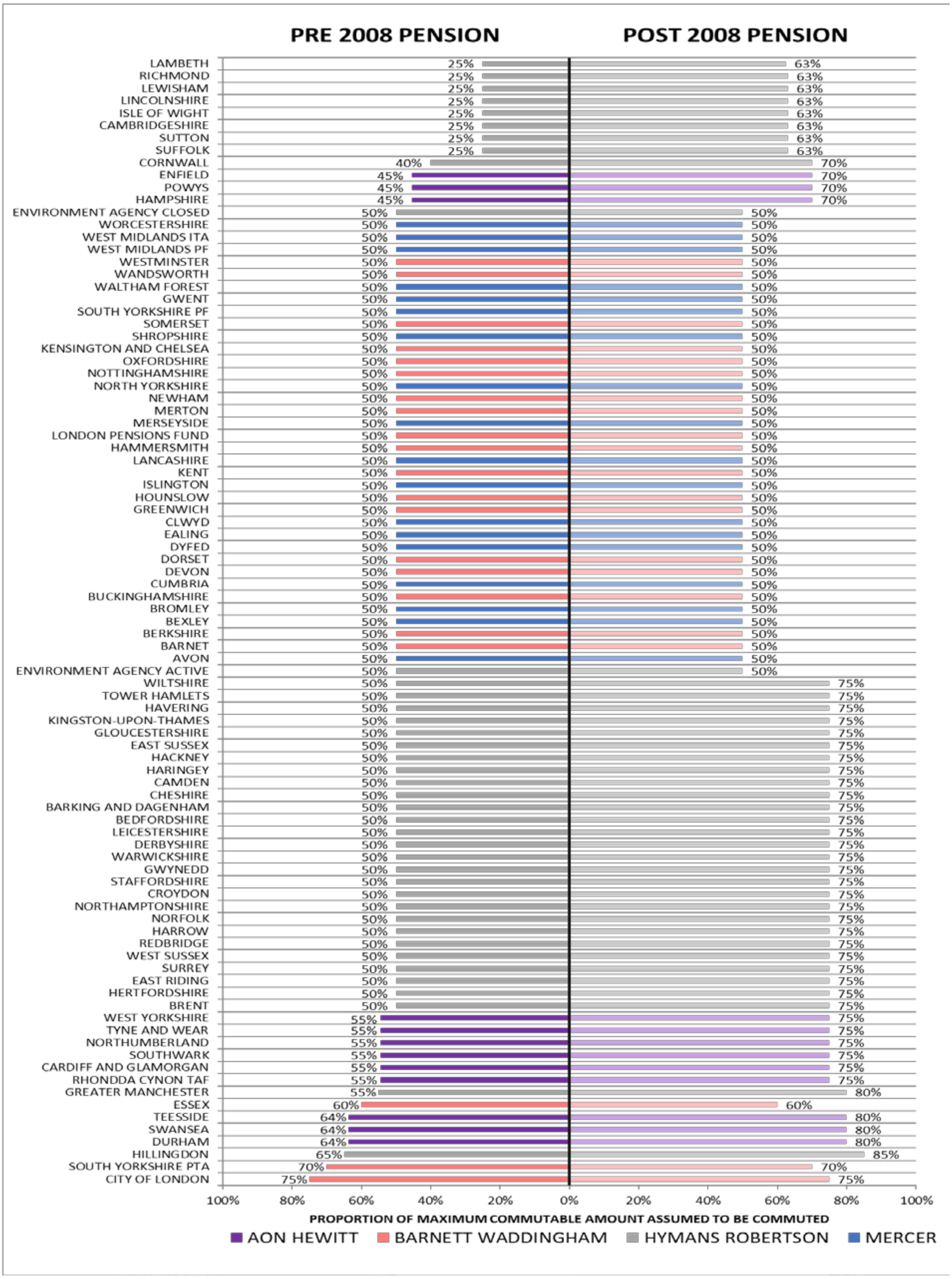
4.32 Regulations currently permit members to commute at a rate of £12 lump sum for each £1 reduction in pension, subject to HMRC limits on the maximum proportion of benefits that can be taken as a lump sum. As the discounted future life expectancy of a member is usually more than 12 years at retirement, commutation tends to be cheaper for the pension scheme. High assumed levels of commutation will therefore tend to reduce the assessed cost of liabilities already accrued and the assessed cost of future accrual.

4.33 LGPS benefits were restructured in 2008, with one of the changes being the removal of an automatic lump sum for any pension accrued post 2008. Many funds therefore have different assumptions for commutation of pre 2008 and post 2008 pensions and the assumptions are uniformly expressed as a proportion of the maximum allowable.

4.34 The following chart shows the differing assumptions between funds for the assumed proportion of maximum allowable pension commuted for both pre and post 2008 pension. For pre-2008 pension, the assumed proportion applies to the remaining maximum amount after the automatic lump sum has been taken.

4.35 Our interpretation of the chart is that there appears to be a common view amongst funds with the same actuarial advisor, but some inconsistency between actuarial advisors. Where this assumption is set based on local experience, this should be explained in the valuation report

Chart 4.2: Commutation assumptions for pre and post 2008 pension



Long term mortality improvements

4.36 Mortality rates are expected to improve in the future, resulting in longer life expectancies. As benefits are expected to be paid for longer, improving life expectancy results in higher liabilities in respect of existing accrued benefits and higher contributions to cover the cost of future accrual.

4.37 There may be evidence of regional variation in mortality rates that justify funds having different assumptions, but it is perhaps more difficult to justify different assumptions for the future improvements in those mortality rates.

4.38 GAD's analysis shows that each actuarial advisor appears to have a common 'house' view on the extent of future mortality improvements. The table below shows the assumed rates of annual improvement in male mortality rates by advisor. In all cases the assumed improvement for female mortality rates is the same as those shown below.

Table 4.1: Annual assumed rate of future mortality improvements

	LONG TERM RATE OF MORTALITY IMPROVEMENTS (MALE)				
ACTUARIAL ADVISOR	0.50%	1.00%	1.25%	1.50%	TOTAL
AON HEWITT	0	0	0	12	12
BARNETT WADDINGHAM	0	1	1	19	21
HYMANS ROBERTSON	1	0	39	0	40
MERCER	0	0	1	17	18

4.39 Hymans Robertson appears to differ from the other advisors with an assumed rate of mortality improvement of 1.25% for the majority of the funds they advise.

4.40 The "outliers" in the table above are mature/closed funds:

> South Yorkshire Passenger Transport Authority Pension Fund (*Barnett Waddingham, 1.00%*);

> City of London Corporation Pension Fund (*Barnett Waddingham, 1.25%*);

> Environment Agency Closed Fund (*Hymans Robertson, 0.50%*); and

> West Midlands Integrated Transport Authority Pension Fund (*Mercer, 1.25%*).

Derivation of discount rates

4.41 At each actuarial valuation a fund, on the advice of its actuary, sets the discount rate or rates that will be used to value its existing liabilities and calculate the contributions that should be paid in order for the fund to meet the cost of future accrual of benefits, and to remove any existing deficit from the scheme.

4.42 The four actuarial advisors approach the derivation of these discount rates differently. The table below summarises the approach taken by one "typical" fund advised by each firm, and is taken from that fund's valuation report and FSS.

Table 4.2 Discount rate methodology

ACTUARIAL ADVISOR	DISCOUNT RATE	METHODOLOGY	2013 VALUATION ASSUMPTION
CARDIFF AND VALE OF GLAMORGAN PENSION FUND *(AON HEWITT)*	PAST SERVICE LIABILITIES AND FUTURE CONTRIBUTIONS	ASSET BASED RATE	5.6%
ROYAL BOROUGH OF KENSINGTON AND CHELSEA PENSION FUND *(BARNETT WADDINGHAM)*	PAST SERVICE LIABILITIES AND FUTURE CONTRIBUTIONS	ASSET BASED RATE	5.9%
NORTHAMPTONSHIRE PENSION FUND *(HYMANS ROBERTSON)*	PAST SERVICE LIABILITIES AND FUTURE CONTRIBUTIONS	GILT YIELDS + 1.6%	4.6%
SOUTH YORKSHIRE PENSION FUND *(MERCER)*	PAST SERVICE LIABILITIES	GILT YIELDS + 1.4%	4.6%
	FUTURE CONTRIBUTIONS	CPI + 3%	5.6%

4.43 Further details on the approach used are set out below, taken from the fund's valuation report and funding strategy statement

Cardiff and Vale of Glamorgan Pension Fund

4.44 The fund's valuation report says:

"The funding strategy statement describes the risk based approach used to set the funding strategy and hence the discount rate. Under this risk based approach:

- *The discount rate for long term scheduled bodies assumes indefinite future investment in assets similar to the Fund's holdings at the valuation date (allowing for any known planned changes to the long term investment strategy).*
- *The Fund assets are considered to have a better than evens chance of delivering investment returns in excess of the scheduled body discount rate."*

Royal Borough of Kensington and Chelsea Pension Fund

4.45 The fund's funding strategy statement says:

"The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date."

4.46 The fund's valuation report says:

"The discount rate – this is based on the expected investment return from the Fund's assets."

Northamptonshire Pension Fund

4.47 The fund's funding strategy statement says:

"This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts").....Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more. For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation)."

4.48 The fund's valuation report says:

"Although there has been a downward shift in the expected returns on risky assets since the 2010 valuation, we believe the expected returns in excess of the returns on government bonds to be broadly unchanged since 2010. Therefore, we are satisfied that an AOA[10] of 1.6% p.a. is a prudent assumption for the purposes of this valuation. This results in a discount rate of 4.6% p.a."

<u>South Yorkshire Pension Fund</u>

4.49 The fund's funding strategy statement says:

"The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 1% in respect of post-retirement liabilities. Based on the liability profile of the Fund at the valuation, this equates to an overall asset out-performance allowance of 1.4% ahead of the LRP[11] p.a."

4.50 The fund's valuation report says:

"The discount rate adopted to set the Funding Target is derived by mapping projected cashflows arising from accrued benefits to a yield curve (which is based on market returns on UK Government gilt stocks and other instruments of varying durations), in order to derive a market consistent gilt yield for the profile and duration of the Scheme's accrued liabilities. To this an Asset Out-performance Assumption ("AOA") of 1.4% per annum is added to reflect the Fund's actual investment strategy.

"The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3% per annum."

[10] AOA = Asset Outperformance Assumption
[11] LRP = Least Risk Portfolio. "a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts"

4.51 This review does not seek to comment on the methodologies the four firms use to derive their discount rates. Further we accept that the discount rate is the main vehicle for adding prudence, as required by regulations. We are pointing out that the methods are different, resulting in different levels of prudence being incorporated into the valuation results, and that this in itself is not explicit, which makes the results of the 2013 valuations unnecessarily difficult to compare for the reader. We also note that the production of standardised results for the 2016 valuations will help in this regard.

Assumed asset out performance within discount rate

4.52 In practice, each actuarial firm has its own method of assessing the appropriate discount rate. However, based on information provided, we considered it appropriate to break this down into the following four components (although we acknowledge this construct does not reflect the way some firms assess their discount rate assumption).

> A risk free real rate of return ("RFR")

> Assumed Consumer Price Index ("CPI") inflation

> The excess of assumed Retail Price Index ("RPI") inflation over assumed Consumer Price Index inflation

> The assumed asset performance over and above the risk free rate (which is a balancing item to get to the discount rate used, and therefore the main determinant of the variation in discount rates, and ultimately the level of prudence adopted)

4.53 Chart 4.3 shows the assumed asset out performance over and above the risk free rate, where the asset outperformance assumption ("AOA") is calculated as the fund's nominal discount rate ("DR") net of:

> The RFR – the real 20 year Bank of England spot rate as at 31 March 2013

> Assumed CPI – as assumed by the fund in their 2013 actuarial valuation

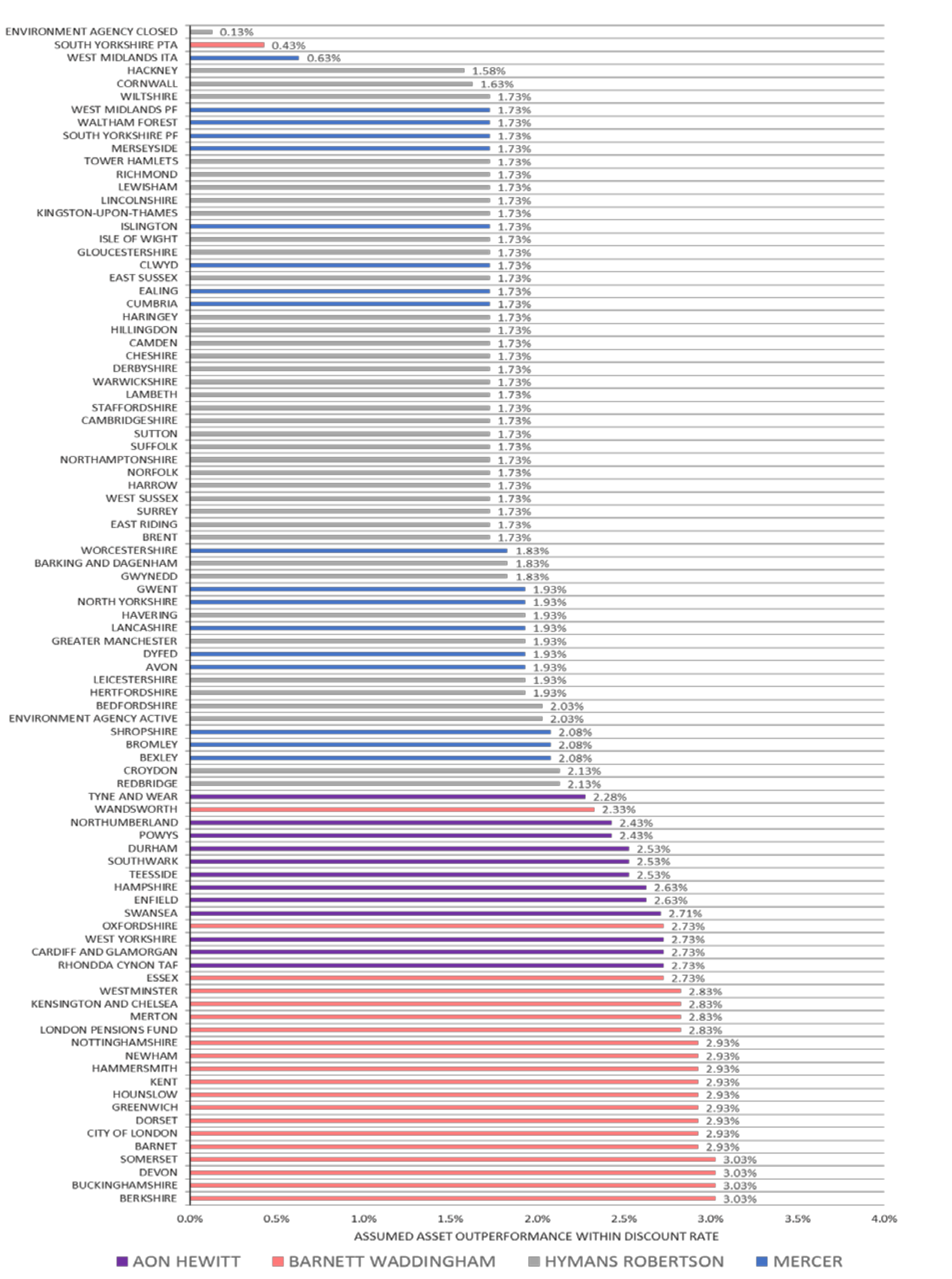
> The excess of assumed RPI inflation over assumed CPI inflation ("RPI–CPI") – as assumed by the fund in their 2013 actuarial valuation

i.e. $AOA = DR - RFR - CPI - (RPI - CPI)$.

4.54 The chart is ordered by maximum assumed AOA within the advisory firm, as represented by the colour scheme. It indicates that the different rates are more likely to be the result of differing future expectations between the four actuarial advisors than, for example, different investment strategies. A higher AOA tends to lead to a higher discount rate and a lower value placed on the liabilities, other things being equal.

4.55 As we have noted, Mercer use a different discount rate to assess future contribution rates.

Chart 4.3: Assumed asset outperformance within discount rate

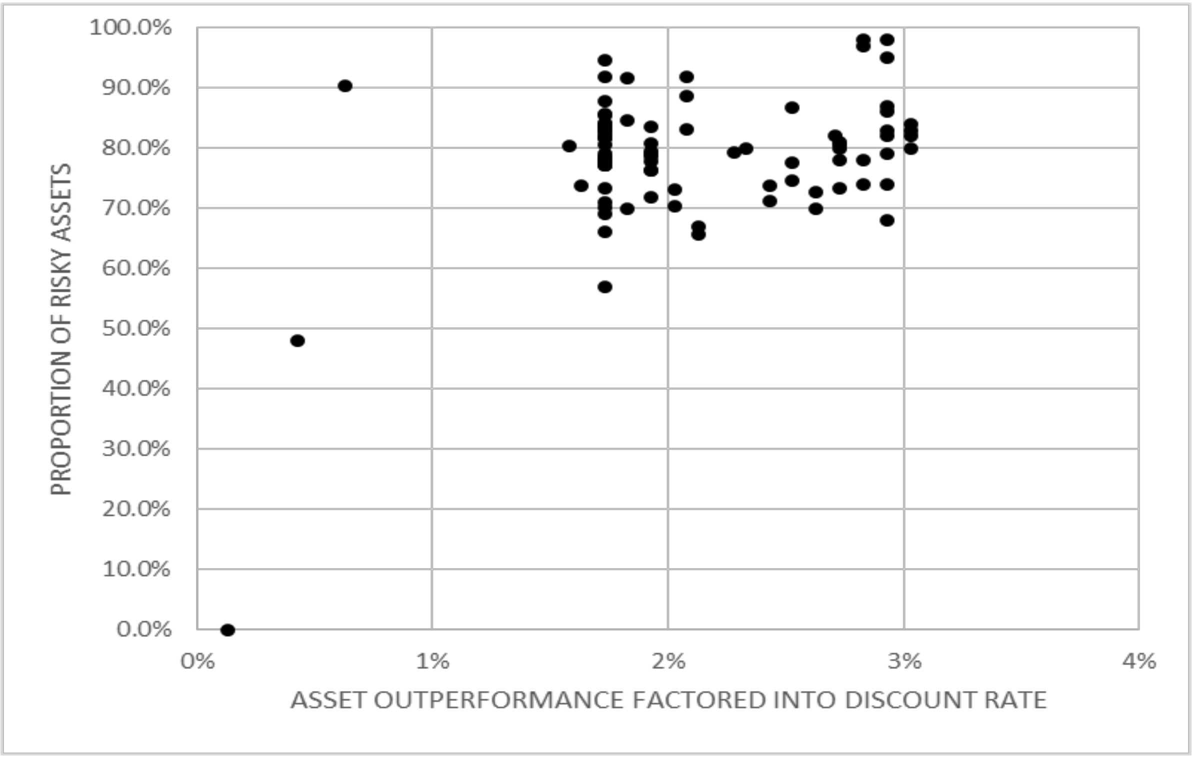


4.56 The large variation between funds in the implied level of asset outperformance over and above the risk free rate of return could be due to differing investment strategies between funds. For example, a fund invested solely in defensive assets, such as Government bonds, would expect a lower rate of return than a fund invested solely in return-seeking assets, such as equities. They would typically use a lower discount rate in their actuarial valuation to allow for this low-risk, low-return investment strategy.

4.57 The variation in asset outperformance could also be considered as a measure of the risk appetite adopted by the funds. We would encourage the actuarial firms to provide additional explicit discussion of this aspect in the 2016 and subsequent valuation reports to assist the reader in interpretting the fund's risk appetite.

4.58 The following chart shows that there is not a definite link between asset outperformance assumption and proportion of return seeking assets.

Chart 4.4: Asset Outperformance by proportion of return seeking assets



Real earnings growth

4.59 There is considerable inconsistency in the assumptions of future real earnings growth, where real earnings growth consists of:

> The excess of the assumed rate of earnings inflation over the assumed rate of CPI inflation

> Assumed promotional salary growth

4.60 A higher rate of real earnings growth (all other assumptions remaining constant) will lead to higher liabilities in an actuarial valuation as the majority of existing liabilities are linked to a member's final salary.

4.61 However, where contribution rates are quoted as a percentage of payroll (although this appears to be relatively rare) a higher rate of real earnings growth also means that future contributions, in money terms, will increase. A higher real earnings assumption may therefore have the effect of weighting contributions in respect of deficit further towards the future, when a fund's payroll is expected to be larger, rather than the present day.

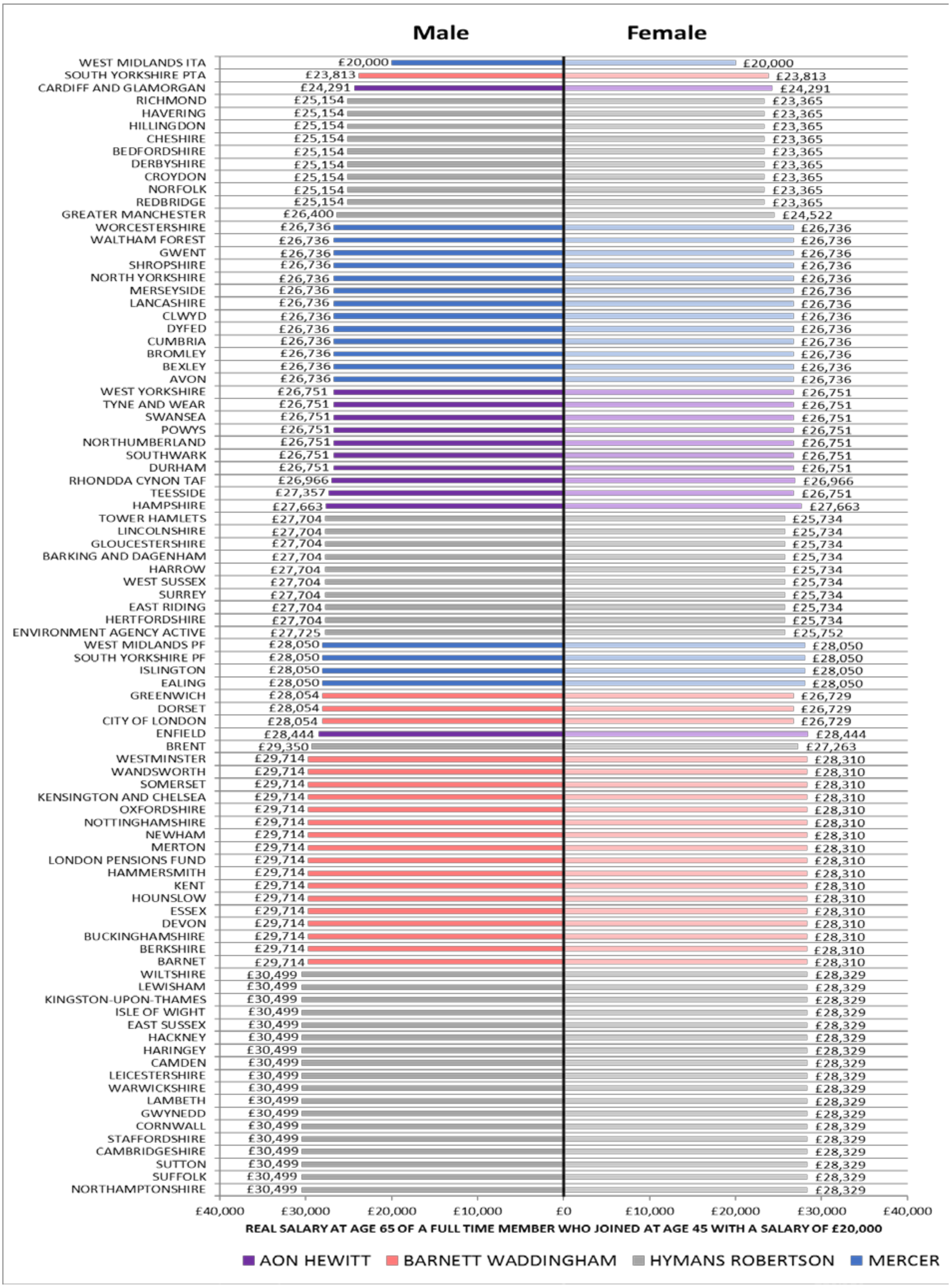
4.62 The following chart shows the assumed salary at age 65, in 2013 prices terms, for a member who joined the fund aged 45 on 31 March 2013 with a salary of £20,000 per annum. Mercer combine their general salary increase and promotion salary increase assumptions into a single figure. The funds they advise have been included in the analysis on that basis. The Environment Agency Closed Fund is excluded as it has few or no active members.

4.63 The majority of funds have assumed different levels of promotional salary growth for male and female members, except 9 of the 12 funds advised by Aon Hewitt for whom a unisex promotional salary growth assumption is used.

4.64 Funds advised by Hymans Robertson also generally have a separate promotional salary growth assumption for full-time and part-time members whereas funds advised by other firms have a single assumption for all active members.

4.65 We would expect some regional variation in this assumption. We also understand that it is an area in which the local authorities may have some input, particularly in short term variations. We would encourage the actuarial firms to add explicit commentary about both short term and long term impacts of these factors on the assumptions adopted.

Chart 4.5: Projected real salary at age 65 for a member aged 45 on £20,000 pa 2013 prices



Standardising the valuation results

4.66 Whilst we acknowledge that no presentation of results on a standardised basis was required as at 2013, the inconsistencies between funds identified above prevent meaningful comparison of local valuation results. As part of the next valuation cycle, as at 31 March 2016, it is expected that funds will produce results on a standardised set of assumptions as well as on their local assumptions, which is a positive step towards allowing the reader to be able to compare the results of valuations for different funds.

4.67 As this information is not available for the actuarial valuations as at 31 March 2013 GAD have adjusted the existing valuation results in order to approximately standardise them using a set of assumptions published by the SAB. This paper refers to this set of assumptions as the “SAB standard basis”.

4.68 The SAB standard basis is reproduced in Appendix D.

4.69 Although the basis proposed by SAB for comparisons is not market consistent, it does allow a meaningful comparison to be made, as this is purely a relative ranking chart. Note that the SAB standard basis is not designed to be market consistent. The funding levels are therefore not intended to represent our opinion of how well funded a particular fund is, but rather to assist in identifying approximate ranking relativities.

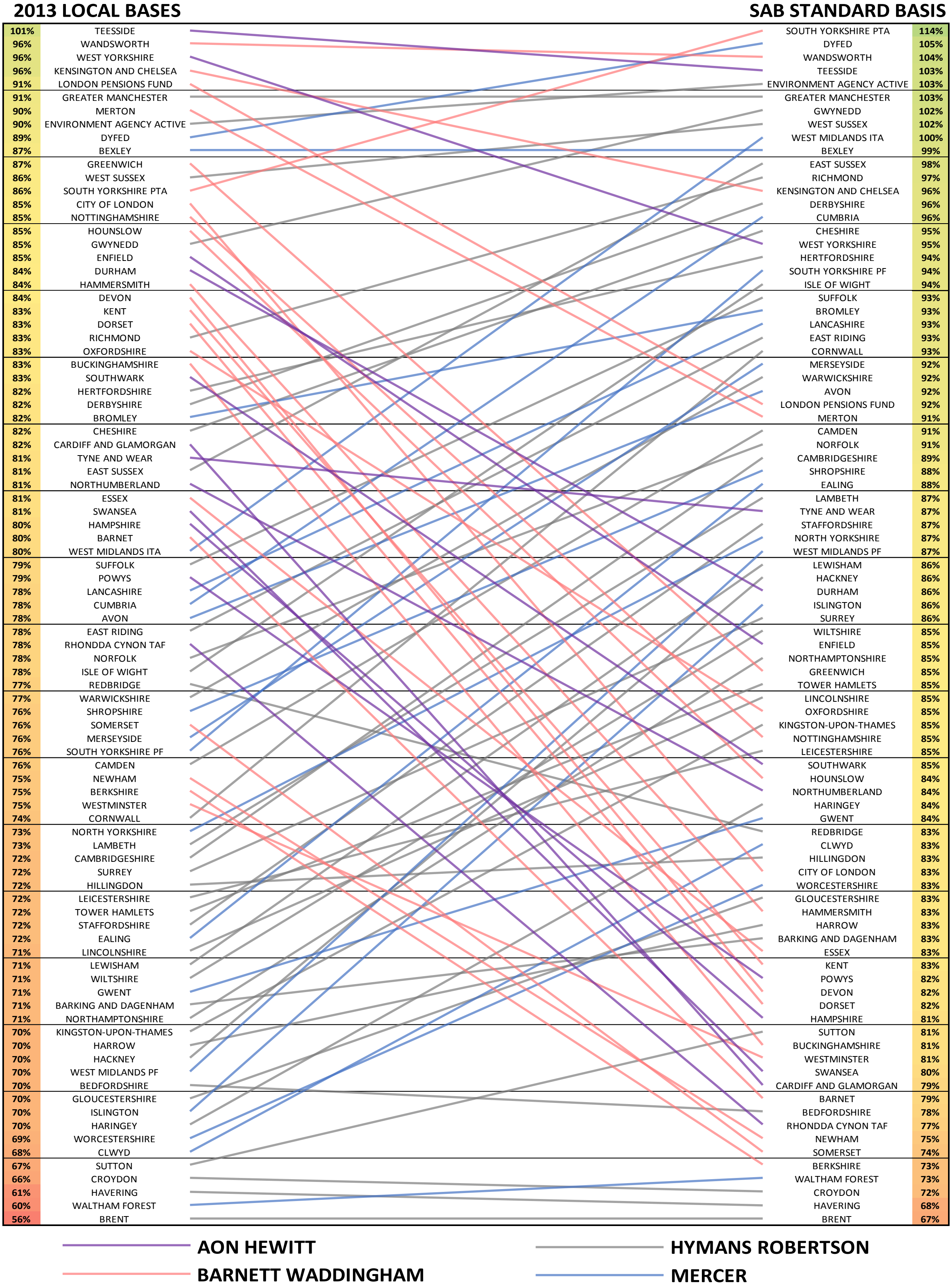
4.70 The following chart shows how the relative ranking of funds by funding ratio (assets/liabilities) has changed as a result of the standardisation process. Funds at the top of the list are those that have the highest funding levels and those at the bottom of the list have the lowest funding levels.

4.71 The chart shows a clear pattern, with funds advised by Aon Hewitt and Barnett Waddingham tending to be lower ranked following the standardisation process, and funds advised by Hymans Robertson and Mercer tending to be higher ranked. This may be interpreted as an indication of differing levels of prudence adopted.

4.72 The extent of the changes in ranking between the two bases indicate that any comparisons based on the local fund valuation results, which are inherently inconsistent, could lead to incorrect conclusions.

4.73 The Environment Agency Closed Pension Fund has been excluded from the table as explained in paragraph 4.62.

Chart 4.6: Standardising local valuation results



5 Solvency

The conclusions of this chapter are that:

- For the two closed Passenger Transport funds, we are not aware of any plan in place to ensure solvency. We would have engaged with the administering authorities to discuss the need for plans to be put in place had section 13 applied as at 31 March 2013.
- We have also highlighted the ten funds with the lowest funding level on the Scheme Advisory Board (SAB) standardised basis. Whilst being poorly funded is not necessarily sufficient, by itself, to warrant a recommendation for remedial action had section 13 been in force, we may nevertheless have engaged with a number of these funds to better understand how they intend to improve their funding position.
- We believe it is important that administering authorities and other employers understand the potential variability of contributions, so that they can understand the affordability of providing LGPS benefits to their employees.

5.1 Under section 13(4)(c) of the Act the Government Actuary (as the person appointed by the responsible authority) must, following an actuarial valuation, report on whether the rate of employer contributions to the pension fund (in this case an LGPS pension fund) is set at an appropriate level to ensure the solvency of the pension fund.

5.2 The explanatory notes to the Act state that solvency means that the rate of employer contributions should be set at *"such a level as to ensure that the scheme's liabilities can be met as they arise"*. We do not regard that this means that a pension fund should be 100% funded at all times. Rather, and for the purposes of section 13, we consider that the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency of the pension fund if:

- the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds)

and either:

- employers collectively have the financial capacity to increase employer contributions, should future circumstances require, in order to continue to target a funding level of 100%

or

- there is an appropriate plan in place should there be, or if there is expected in future to be, no or a limited number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed

5.3 In the context of the LGPS:

> Our understanding based on confirmation from DCLG is that, in contrast to employers in the private sector, there is no insolvency regime for local authorities

> Therefore, for the purposes of our analysis we will assume that local authority sponsors cannot default on their pension liabilities through failure

> For funds with local authority employers, members' benefits are therefore dependent on the assets of the scheme and future contributions from employers including local authorities

It is therefore important that administering authorities and other employers understand the potential cost, so that they can understand the affordability of potential future contribution requirements.

Volatility of contributions

5.4 The future rate of employer contributions to ensure the solvency of the fund can be highly volatile, and dependent on economic conditions at the time of valuation and asset returns over the periods between valuations.

5.5 In a financial crisis scenario, similar to the 2008 financial crisis, we estimate that aggregate contributions would have to increase by around £1.7 billion per year assuming that some of the existing prudence in assumptions is relaxed. If the same level of prudence was maintained we estimate that contributions would increase by £4.9 billion per year (compared with the actual outturn from the 2013 valuations of £6.6 billion). Over the three years from 1 April 2016 to 31 March 2019 we estimate additional contributions of approximately £13.5bn would be required.

Solvency considerations

5.6 In assessing whether the conditions in paragraph 5.2 are met, we will have regard to:

Risks already present:

> funding level on the SAB standard basis

> the extent to which the fund continues to be open to new members. If the fund is closed to new members or is highly mature, we will focus on the ability to meet additional cash contributions

> the ability of the fund to meet benefits due (without constraining investment policy)

> the ability of tax raising authorities to meet employer contributions

Emerging risks:

> the cost risks posed by changes in the value of the scheme liabilities (to the extent that these are not matched by changes to the scheme assets)

- the cost risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)
- the proportion of scheme employers without tax raising powers or without statutory backing
- how the risks above compare with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole

5.7 If the conditions in paragraph 5.2, taking into account the considerations above, are met then it is expected that the fund will be able to pay scheme benefits as they fall due.

Solvency measures

5.8 In the 2016 section 13 report GAD is likely to use ten[12] measures across the two categories to assess whether the above conditions are met. In this 2013 dry run report GAD has only used six of these ten measures as the data required for the other four measures were not available within the necessary time frame. However, we have included all ten measures in the descriptions that follow for information purposes.

5.9 In the following table we set out the considerations with regards to risks already present and emerging risks, and map these to the likely measures:

Table 5.1: Solvency measures

Consideration	Measure Used
Risks already present:	
The relative ability of the fund to meet its accrued liabilities	**SAB funding level:** A fund's funding level using the SAB standard basis, as set out in Appendix D
The extent to which the fund continues to be open to new members. If a fund is closed to new members or is highly mature, we will focus on the ability to meet additional cash contributions	**Open fund:** Whether the fund is open to new members
The proportion of scheme employers without tax raising powers or without statutory-backing	**Non-statutory members:** The proportion of members within the fund who are/were employed by an employer without tax raising powers or statutory backing

[12] Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.

Consideration	Measure Used
The ability of tax raising authorities to meet employer contributions	**Contribution cover[10]:** Actual contributions paid to the fund as a proportion of local authority income
Emerging risks:	
The cost risks posed by changes in the value of the scheme liabilities (to the extent that these are not matched by changes to the scheme assets) compared with the pensionable payroll of scheme employer	**Liability shock:** The change in average employer contribution rates as a percentage of payroll after a 10% increase in liabilities
How the risk above compares with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole	**Liability shock cover[13]:** The change in average employer contribution rates as a percentage of local authority income after a 10% increase in liabilities
The cost risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)	**Asset shock:** The change in average employer contribution rates as a percentage of payroll after a 15% fall in value of return-seeking assets
How the risk above compares with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole	**Asset shock cover[11]:** The change in average employer contribution rates as a percentage of local authority income after a 15% fall in value of return-seeking assets
The impact of non statutory employers defaulting on contributions	**Employer default:** The change in average employer contribution rates as a percentage of payroll if all employers without tax raising powers or statutory backing default on their existing deficits
How the risk above compares with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole	**Employer default cover[11]:** The change in average employer contribution rates as a percentage of local authority income if all employers without tax raising powers or statutory backing default on their existing deficits

[13] Data were not available for these measures. We expect information to be available following the 2016 valuations.

5.10 We have included reference to tax payer-backed employers being of stronger covenant value than other employers. Data for this purpose are captured from SF3 statistics which labels employers with one of four categories. For this purpose we have taken categories 1 and 2 to be tax payer-backed, while categories 3 and 4 are not tax payer-backed. It is likely that some category 3 employers have council guarantees, bonds or other external security. However, we consider that this does not alter the general principle that the residual liability falls back to the tax payer-backed employers.

5.11 Each fund's score under each measure is colour coded, where:

> **RED** indicates a potentially material issue that may contribute to a recommendation for remedial action in order to ensure solvency;

> **AMBER** is used to highlight a possible risk to sponsoring employers; and

> **GREEN** indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure solvency.

5.12 It should be noted that these flags are intended to highlight areas for further investigation, but green does not indicate a clean bill of health and also that the fact we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.

5.13 Emerging risk measures require assumptions. We used market consistent assumptions for this purpose, details of which can be found in Appendix D. Details of the methods used to calculate scores under each measure and the criteria used to assign a colour code can be found in Appendix E.

5.14 In tables 5.2 (open funds) and 5.3 (closed funds) below we illustrate the results of the six solvency measures we have used for each of the individual funds in the LGPS where at least one measure of insolvency was amber or red. A fund with a large number of amber or red measures is one where the solvency of the fund may be at risk. Table F.1 in Appendix F sets out the results of each solvency measure for each fund in LGPS.

5.15 The rates shown in tables 5.2, 5.3 and F.1 are approximate, and are based on the information provided to GAD and/or publicly available. Although the calculations are approximate, we consider they are sufficient for the purposes of identifying which funds are a cause for concern. While they should not represent targets, these measures help us determine whether a more detailed review is required; for example, we would have concern where multiple measures are triggered amber for a given fund.

Table 5.2: Open funds with amber or red solvency measures

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
BEDFORDSHIRE	5.9 (76)	78%	YES	4%	+3%	+3%	+0%
BERKSHIRE	5.9 (78)	73%	YES	6%	+3%	+3%	+1%
BEXLEY	7.4 (14)	99%	YES	7%	+4%	+6%	-0%
BRENT	6.9 (28)	67%	YES	0%	+4%	+3%	+0%
BROMLEY	6.8 (33)	93%	YES	2%	+4%	+5%	+0%
CAMDEN	8.6 (7)	91%	YES	9%	+5%	+6%	+0%
CROYDON	6.7 (37)	72%	YES	5%	+4%	+3%	+1%
EAST SUSSEX	6.3 (52)	98%	YES	2%	+4%	+5%	-0%
GREATER MANCHESTER	7.2 (22)	103%	YES	22%	+4%	+5%	-1%
GREENWICH	7.2 (21)	85%	YES	6%	+4%	+5%	+0%
HACKNEY	7.4 (15)	86%	YES	0%	+4%	+5%	+0%
HAMMERSMITH	8.9 (6)	83%	YES	6%	+5%	+6%	+0%
HARINGEY[14]	7.8 (11)	84%	YES	N/A	+4%	+5%	N/A
HAVERING	6.8 (34)	68%	YES	1%	+4%	+3%	+0%
ISLE OF WIGHT	7.4 (16)	94%	YES	3%	+4%	+5%	+0%
KENSINGTON AND CHELSEA	7.7 (13)	96%	YES	5%	+4%	+6%	-0%
LAMBETH	8.9 (5)	87%	YES	5%	+5%	+5%	+0%
LEWISHAM	7.8 (10)	86%	YES	16%	+4%	+5%	+1%
LONDON PENSIONS FUND	9.6 (4)	92%	YES	0%	+6%	+4%	+0%
MERSEYSIDE	7.3 (17)	92%	YES	13%	+4%	+5%	+0%
NEWHAM[12]	7.3 (19)	75%	YES	N/A	+4%	+4%	N/A
NORTHUMBERLAND	8.2 (8)	84%	YES	6%	+5%	+5%	+0%
OXFORDSHIRE	5.9 (75)	85%	YES	36%	+3%	+4%	+2%
RHONDDA CYNON TAF	6.1 (68)	77%	YES	5%	+3%	+3%	+0%

[14] The information required for the ***Non-Statutory Employees*** and ***Employer Default*** measures was not available in the SF3 statistics.

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
RICHMOND	7.1 (24)	97%	YES	3%	+4%	+5%	-0%
SOMERSET	5.9 (80)	74%	YES	13%	+3%	+3%	+1%
TEESSIDE	6.8 (29)	103%	YES	13%	+4%	+5%	-0%
TOWER HAMLETS	8.1 (9)	85%	YES	0%	+5%	+5%	+0%
WALTHAM FOREST	7 (26)	73%	YES	5%	+4%	+4%	+1%
WANDSWORTH	7.7 (12)	104%	YES	1%	+4%	+6%	-0%
WEST SUSSEX	6 (72)	102%	YES	6%	+3%	+5%	-0%
WESTMINSTER	10.1 (3)	81%	YES	11%	+6%	+6%	+1%

Table 5.3: Closed funds with amber or red solvency measures

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
SOUTH YORKSHIRE PTA[15]	25.2 (1)	114%	NO	100%	+5%	+3%	N/A
WEST MIDLANDS ITA[13]	25.1 (2)	100%	NO	100%	+5%	+7%	N/A

Observations based on the solvency measures

Open Funds

5.16 All funds should be aware of their solvency position to ensure that the relevant plans are in place to be able to pay benefits when they fall due, and employers are able to accommodate potential future increases in contributions.

5.17 This is particularly important in the case of mature funds. They should ensure that sufficient plans are in place to be able to pay benefits when they fall due in the environment of no future employer contributions.

[15] The ***Employer Default*** measure is shown as N/A because there are no statutory employers participating in these two closed funds.

5.18 We may also have engaged with a number of funds showing amber flags under the SAB funding level measure to better understand how they intend to improve their funding position had section 13 applied as at 31 March 2013.

Adjustment to results for City of Westminster Pension Fund and London Borough of Waltham Forest Pension Fund

5.19 As noted in paragraph 2.9, the purpose of the flags is to identify authorities with whom we might engage and potentially seek additional information from. The importance of clear disclosure in the valuation reports and accurate provision of data from the local authorities and the actuarial firms is highlighted by two examples from our analysis.

5.20 For the City of Westminster Pension Fund, we sought more information from the fund's actuary, clarifying the different actuarial basis that had been applied to some admission bodies, whereas our standard assessment methodology had relied on the same actuarial assumptions being applied for all participating employers in the fund except where this was clear from the valuation report. Based on this additional information, we recalculated our measures and have reported on this revised basis. The result was that Westminster raised only two amber flags.

5.21 For the Borough of Waltham Forest Pension Fund, following engagement with the fund's actuary, we were advised that a material proportion of members had seemingly been incorrectly classified in SF3 data returns. Upon receipt of data reflecting a revised classification of those members, we were able to conclude that Waltham Forest raised only one amber flag.

5.22 Following the 2016 valuation we will request more explicit information and our expectation is that this, together with having highlighted the need for clear and full disclosure and the production of liabilities on the SAB standard basis, will help to improve the overall quality of information provided.

Closed Funds

5.23 The Environment Agency Closed Pension Fund has not been shown in the table above and is excluded from the analyses that follow as the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs as set out in the Compliance chapter.

5.24 Table 5.3 shows that both West Midlands Integrated Transport Authority Pension Fund and South Yorkshire Passenger Transport Authority Pension Fund raised a number of red/amber flags.

5.25 Our further investigation indicates that West Midlands Integrated Transport Authority Pension Fund has taken out a buy-in policy with an insurer to reduce its exposure to asset/liability shocks. Furthermore we understand that a guarantee has been obtained from the parent company of the employer. Both of these provide some additional assistance with solvency risk, but do not fully eliminate that risk.

5.26 The 2013 local valuation reports for both funds show that employers are paying additional lump sum contributions in order to meet their liabilities. However, the two transport authority funds are wholly dependent on the performance of a limited company.

5.27 As they are closed to new members, their payrolls are also decreasing, which may reduce the scope to be able to meet variations in contributions. This means that they are at risk of requiring outside funding in the future, which in turn may be uncertain.

5.28 Had section 13 been in force at the time, we would have raised concerns about the two transport authority funds. We would expect to have engaged with them to discuss their plans. Remedial action may have been recommended, depending on the outcome of that engagement. That remedial action may have included putting in place a plan to pay benefits when they fall due in the environment of no future employer contributions, and may have included a requirement to seek a guarantor (should there not already be one).

6 Long term cost efficiency

For the following two funds we would have engaged with the administering authority to investigate whether the aims of section 13 were met had section 13 applied as at 31 March 2013:

- Royal County of Berkshire Pension Fund
- Somerset County Council Pension Fund

A number of other funds have triggered flags. We do not consider that these funds are not meeting the aims of section 13 yet, but we would have encouraged these funds to provide further information regarding the relevant measures.

Neither of the closed Passenger Transport authority pension funds triggered long term cost efficiency flags.

We had some concerns regarding the actual contributions data underlying the contribution shortfall measure. A number of red flags were triggered that we have ignored due to these data concerns. We would have sought additional clarification

6.1 Under section 13(4)(c) of the Act, the Government Actuary (as the person appointed by the responsible authority) must, following an actuarial valuation, report on whether the rate of employer contributions to the pension fund (in this case an LGPS pension fund) are set at an appropriate level to ensure the long-term cost efficiency of the scheme, so far as relating to the pension fund.

6.2 The accompanying explanatory notes to the Act state that: "Long-term cost-efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time."

6.3 We conclude that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

6.4 In assessing whether the requirement for long term cost efficiency is met, we had regard to a number of absolute and relative considerations and constructed ten[16] measures to assess these considerations. Data were not available to populate all measures, although we expect data to be available for the section 13 work following the 2016 valuations.

[16] Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.

6.5 A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned the fund on a standalone basis. In the following table we set out the relative and absolute considerations, and map these to the ten measures.

Table 6.1: Long term cost efficiency measures

Consideration	Measure Used
Relative considerations:	
The pace at which the deficit is expected to be paid off	**Deficit Repaid:** The proportion of deficit paid off in the first year, where the deficit is calculated on a standardised market consistent basis (SAB key indicator 2(i))
The implied deficit recovery period	**Deficit Period:** Implied deficit recovery period calculated on a standardised market consistent basis (SAB key indicator 3)
The investment return required to achieve full funding	**Required Return:** The required investment return rates to achieve full funding in 20 years' time on a standardised market consistent basis (SAB key indicator 4(i))
The pace at which the deficit is expected to be paid off	**Repayment Shortfall:** The difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off the deficit in 20 years, where the deficit is calculated on a standardised market consistent basis
The pace at which the deficit is expected to be paid off	**Repayment Pace[17]:** The amount of deficit paid off over each future valuation period, as a proportion of the original deficit, and the number of years required to pay off 50% of the value of original deficit, where the deficit calculations are carried out on a standardised market consistent basis
Absolute Considerations:	
The extent to which the required investment return above is less than the estimated future return being targeted by a fund's investment strategy	**Return Scope:** The required investment return rates as calculated in required return (i.e. SAB key indicator 4(i)), compared with the fund's expected best estimate future returns assuming current asset mix maintained (SAB key indicator 4(ii))

[17] Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.

Consideration	Measure Used
The extent to which any deficit recovery plan can be reconciled with, and can be demonstrated to be a continuation of, the previous deficit recovery plan, after allowing for actual fund experience	**Deficit Extension:** The change in each fund's reported deficit recovery period from the 2010 valuation to the 2013 valuation
If there is a deficit, the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on the deficit over the current inter-valuation period	**Interest Cover:** A check on whether the annual deficit recovery contributions paid by the fund are sufficient to cover the annual interest payable on that deficit, where the deficit is calculated on a standardised market consistent basis
The extent to which any deficit recovery plan can be reconciled with, and can be demonstrated to be a continuation of, the previous deficit recovery plan, after allowing for actual fund experience	**Deficit Reconciliation:**[18] Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience
If there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future	**Surplus retention[16]:** Confirmation that contributions from funds not in deficit are not likely to lead to a deficit arising in the future.

6.6 Four of these measures were selected from the KPIs defined by the SAB[19].

6.7 The selected SAB measures have been augmented with six additional measures which we believe are appropriate in helping to assess whether the aims of section 13 are met.

6.8 Three of the measures (deficit extension, deficit reconciliation and surplus retention) were assessed based on the local funds' actuarial bases (i.e. no standardised basis was required), or are proposed to be assessed on these bases as part of the section 13 work following the 2016 valuations. However, because of the inconsistencies in approach highlighted in chapter 4, it was not possible to assess the other measures using the local valuations.

[18] Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.
[19] http://committees.westminster.gov.uk/documents/s15058/11%20-%20Appendix%201%20-%20KPI%20Guidance.pdf

6.9 For the remaining measures (deficit repaid, deficit period, required return, repayment shortfall, repayment pace, return scope and interest cover) we assessed the metrics on a standardised market-consistent basis (as set out in Appendix D), or we propose to do so as part of the section 13 work following the 2016 valuations. Although some could have been assessed on the SAB prescribed basis described in Appendix D, the non-market-related SAB basis is not appropriate for some of the comparisons between the funds, and so for consistency, we have adjusted this basis to make it market consistent.

6.10 Each fund's score under each measure is colour coded, where:

- RED indicates a potentially material issue that may contribute to a recommendation for remedial action in order to ensure long-term cost efficiency of contributions;
- AMBER indicates a possible risk to the long-term cost efficiency of contributions; and
- GREEN indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure long-term cost efficiency of contributions.

6.11 It should be noted that these flags are intended to highlight areas for further investigation, but green does not indicate a clean bill of health and also that the fact we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.

6.12 The Environment Agency Closed Fund was excluded from the analyses that follow, as the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs as set out in the Compliance chapter.

6.13 The analyses and calculations carried out under these long-term cost efficiency measures are approximate. They rely on the accuracy of the data provided by the respective local fund actuaries and the data published by DCLG in their SF3 statistics[20].

6.14 Although the calculations are approximate, we consider they are sufficient for the purposes of identifying which funds are a cause for concern. While the measures should not represent targets, these measures help us determine whether a more detailed review is required; for example, we would have concern where multiple measures are triggered amber for a given fund.

6.15 In the table that follows we illustrate the results of each long term cost efficiency measure for each of the individual funds in the LGPS where at least one measure of insolvency was amber or red.

[20] https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-local-authority-data-2014-to-2015

6.16 The data that have been used to calculate the measures employed in this dry run report are set out in Appendix C while the methodology is set out in Appendix G. The complete table of funds and their long-term cost efficiency measures can be found in Appendix H.

Table 6.2: Open funds with amber or red long term cost efficiency measures

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
BERKSHIRE	5.9 (78)	4%	34	6%	-2%	-0.5%	-3	No
BROMLEY	6.8 (33)	>50%	2	3%	13%	3.1%	3	Yes
ENVIRONMENT AGENCY ACTIVE[21]	5.8 (85)	IN SURPLUS	IN SURPLUS	N/A	N/A	N/A	3	N/A
GWENT	5.9 (79)	13%	8	5%	5%	1.5%	5	Yes
SOMERSET	5.9 (80)	5%	24	6%	-1%	0.0%	0	No
STAFFORDSHIRE	6.2 (59)	23%	5	4%	9%	2.4%	5	Yes
WORCESTERSHIRE	6.3 (57)	14%	7	4%	7%	2.0%	2	Yes

Observations based on the long-term cost efficiency measures

Open Funds

6.17 Table 6.2 shows those funds that would have given rise to concerns about the long-term cost efficiency of their contributions if the requirements of section 13 were in place as at 31 March 2013.

6.18 We will seek a confirmation that these data items are accurate for the section 13 review after the 2016 valuations. We expect that these data will allow us to calculate the average over a three year period, rather than just one year's contributions, to account for any phasing in of contribution rate changes.

6.19 Funds that give rise to concern are:

> Royal County of Berkshire Pension Fund

> Somerset County Council Pension Fund

[21] Some measures are identified as N/A because the fund is in surplus on the market consistent basis.

6.20 No flags were raised under the surplus retention measure, so we have excluded this measure from table 6.2. At present, all the funds that were in surplus on the standardised market consistent basis were paying sufficient contributions into their funds, which resulted in an increase in the value of the surplus on the standardised market consistent basis.

Adjustment to results for City of Westminster Pension Fund

6.21 As noted in paragraphs 5.19 – 5.22 based on additional information, we recalculated our measures and have reported on this revised basis. The result was that Westminster raised no flags under long term cost efficiency.

6.22 Following the 2016 valuation we will request more explicit information and our expectation is that this, together with having highlighted the need for clear and full disclosure and the production of liabilities on the SAB standard basis, will help to improve the overall quality of information provided.

Closed Funds

6.23 No flags have been raised in respect of closed funds under long term cost efficiency, hence we have not shown a table in respect of closed funds.

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LGPS ENGLAND AND WALES

Appendices to Section 13 Dry Run Report

Date: July 2016

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Contents

Appendix A: Section 13 of the Public Service Pensions Act 2013[1]

13 Employer contributions in funded schemes

(1) This section applies in relation to a scheme under section 1 which is a defined benefits scheme with a pension fund.

(2) Scheme regulations must provide for the rate of employer contributions to be set at an appropriate level to ensure—

(a) the solvency of the pension fund, and

(b) the long-term cost-efficiency of the scheme, so far as relating to the pension fund.

(3) For that purpose, scheme regulations must require actuarial valuations of the pension fund.

(4) Where an actuarial valuation under subsection (3) has taken place, a person appointed by the responsible authority is to report on whether the following aims are achieved—

(a) the valuation is in accordance with the scheme regulations;

(b) the valuation has been carried out in a way which is not inconsistent with other valuations under subsection (3);

(c) the rate of employer contributions is set as specified in subsection (2).

(5) A report under subsection (4) must be published; and a copy must be sent to the scheme manager and (if different) the responsible authority.

(6) If a report under subsection (4) states that, in the view of the person making the report, any of the aims in that subsection has not been achieved—

(a) the report may recommend remedial steps;

(b) the scheme manager must—

(i) take such remedial steps as the scheme manager considers appropriate, and

(ii) publish details of those steps and the reasons for taking them;

(c) the responsible authority may—

(i) require the scheme manager to report on progress in taking remedial steps;

(ii) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

(7) The person appointed under subsection (4) must, in the view of the responsible authority, be appropriately qualified.

[1] http://www.legislation.gov.uk/ukpga/2013/25/section/13

Appendix B: Extracts from other relevant regulations

Regulations 35 and 36 from 'The Local Government Pension Scheme (Administration) Regulations 2008[2]'

Funding strategy statement

35.–(1) This regulation applies to the funding strategy statement prepared and published by an administering authority under regulation 76A of the 1997 Regulations[3].

(2) The authority must—

(a) keep the statement under review;

(b) make such revisions as are appropriate following a material change—

(i) in its policy on the matters set out in the statement, or

(ii) to the current version of its statement under regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (statement of investment principles); and

(c) if revisions are made, publish the statement as revised.

(3) In reviewing and making revisions to the statement, the authority must—

(a) have regard to the guidance set out in the document published in March 2004 by CIPFA and called "CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement (Guidance note issue No.6)"; and

(b) consult such persons as it considers appropriate.

Actuarial valuations and certificates

36.–(1) Each administering authority must obtain—

(a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2010 and in every third year afterwards;

(b) a report by an actuary in respect of the valuation; and

(c) a rates and adjustments certificate prepared by an actuary.

(2) Each of those documents must be obtained before the first anniversary of the date ("the valuation date") as at which the valuation is made or such later date as the Secretary of State may agree.

(3) A report under paragraph (1)(b) must contain a statement of the demographic assumptions used in making the valuation; and the statement must show how the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.

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[2] http://www.legislation.gov.uk/uksi/2008/239/contents/made
[3] Regulation 76A was inserted by The Local Government Pension Scheme (Amendment) Regulations 2004

(4) A rates and adjustments certificate is a certificate specifying—

(a) the common rate of employer's contribution; and

(b) any individual adjustments,

for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

(5) The common rate of employer's contribution is the amount which, in the actuary's opinion, should be paid to the fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members.

(6) The actuary must have regard to—

(a) the existing and prospective liabilities of the fund arising from circumstances common to all those bodies;

(b) the desirability of maintaining as nearly constant a common rate as possible; and

(c) the current version of the administering authority's funding strategy statement mentioned in regulation 35.

(7) An individual adjustment is any percentage or amount by which, in the actuary's opinion, contributions at the common rate should, in the case of a particular body, be increased or reduced by reason of any circumstances peculiar to that body.

(8) A rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects—

(a) the number of members who will become entitled to payment of pensions under provisions of the Scheme; and

(b) the amount of the liabilities arising in respect of such members,

during the period covered by the certificate.

(9) The authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as he requests.

Regulation 12 of 'The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009[4]'

Statement of investment principles

12.–(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain (in accordance with paragraph (5)) and publish a written statement of the principles governing its decisions about the investment of fund money.

(2) The statement must cover its policy on—

(a) the types of investment to be held;

(b) the balance between different types of investments;

(c) risk, including the ways in which risks are to be measured and managed;

(d) the expected return on investments;

(e) the realisation of investments;

(f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;

(g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and

(h) stock lending.

(3) The statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and, to the extent the authority does not so comply, the reasons for not complying.

(4) The first such statement must be published no later than 1st July 2010.

(5) The statement must be reviewed, and if necessary, revised, by the administering authority from time to time and, in the case of any material change in the authority's policy on the matters referred to in paragraphs (2) and (3), before the end of a period of six months beginning with the date of that change.

(6) A statement revised under paragraph (5) must be published.

[4] http://www.legislation.gov.uk/uksi/2009/3093/regulation/12/made

Regulations 58 and 62 of 'The Local Government Pension Scheme Regulations 2013[5]'

Funding strategy statement

58.–(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.

(2) The statement must be published no later than 31st March 2015.

(3) The authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.

(4) In preparing, maintaining and reviewing the statement, the administering authority must have regard to—

(a) the guidance set out in the document published in March 2004 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement (Guidance note issue No. 6)[6]"; and

(b) the statement of investment principles published by the administering authority under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Actuarial valuations of pension funds

62.–(1) An administering authority must obtain—

(a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards;

(b) a report by an actuary in respect of the valuation; and

(c) a rates and adjustments certificate prepared by an actuary.

(2) Each of those documents must be obtained before the first anniversary of the date ("the valuation date") as at which the valuation is made or such later date as the Secretary of State may agree.

(3) A report under paragraph (1)(b) must contain a statement of the demographic assumptions used in making the valuation; and the statement must show how the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.

(4) A rates and adjustments certificate is a certificate specifying—

[5] http://www.legislation.gov.uk/uksi/2013/2356/contents/made

[6] ISBN Number 085299 996 8; copies may be obtained from CIPFA at 3 Robert Street, London, WC2N 6RL

(a) the primary rate of the employer's contribution; and

(b) the secondary rate of the employer's contribution,

for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

(5) The primary rate of an employer's contribution is the amount in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members.

(6) The actuary must have regard to—

(a) the existing and prospective liabilities arising from circumstances common to all those bodies;

(b) the desirability of maintaining as nearly constant a common rate as possible;

(c) the current version of the administering authority's funding strategy mentioned in regulation 58 (funding strategy statements); and

(d) the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.

(7) The secondary rate of an employer's contributions is any percentage or amount by which, in the actuary's opinion, contributions at the primary rate should, in the case of a Scheme employer, be increased or reduced by reason of any circumstances peculiar to that employer.

(8) A rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects—

(a) the number of members who will become entitled to payment of pensions under the provisions of the Scheme; and

(b) the amount of the liabilities arising in respect of such members,

during the period covered by the certificate.

(9) The administering authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as the actuary requests.

Appendix C: Data provided

C.1 At the request of the Department for Communities and Local Government ('DCLG') the Government Actuary's Department ('GAD') has collected data from each fund's 2013 valuation report. These actuarial funding valuations were conducted by four actuarial firms:

> Aon Hewitt

> Barnett Waddingham

> Hymans Robertson

> Mercer

C.2 Data were received from the relevant local actuary or the administering authority for 89 of the 91 pension funds. Information for the Environment Agency Closed Fund and South Yorkshire Passenger Transport Authority Pension Fund have been taken directly from their respective 2013 valuation reports by GAD.

C.3 Limited checks, consisting of spot checks to make sure that data entries appear sensible, have been performed by GAD and the data received appears to be of sufficient quality for the purpose of analysing the 2013 valuation results. These checks do not represent a full, independent audit of the data supplied. The analysis contained in this report relies on the general completeness and accuracy of the information supplied by the administering authority or their actuaries.

C.4 In addition, data has been collated from the '*Local government pension scheme funds local authority data*', which is published annually by DCLG. This published data may be referred to elsewhere as SF3 statistics.

C.5 Unless otherwise stated the data detailed above has been used to inform the analysis contained in the LGPS England and Wales Section 13 Dry Run Report.

C.6 The original data request sent to individual funds for the collection of 2013 valuation data and accompanying explanatory notes now follow.

Data specification

1) MEMBERSHIP DATA
   Data split by gender.

   a) Active members: number, average age (weighted as appropriate), average period of membership, total rate of annual actual pensionable pay at 31 March 2013, total rate of annual FTE pensionable pay at 31 March 2013,
   b) Deferred members: number, average age (weighted as appropriate), total annual preserved pension revalued to 31 March 2013. Note this should exclude undecided members.
   c) Pensioners (former members): number, average age (weighted as appropriate), total annual pensions in payment at 31 March
   d) Pensioners (dependants including partners and children): number, average age (weighted as appropriate), total annual pensions in payment at 31 March
   e) Pensionable pay definition, has the 2008 or 2014 definition been used to assess pensionable pay

2) FINANCIAL ASSUMPTIONS
   Provide separately for past service liabilities and future contributions, if different assumptions adopted. If different assumptions are adopted for Scheduled bodies and Admitted bodies the assumptions adopted for Scheduled bodies should be entered.

   a) Nominal discount rate (pre & post retirement separately if applicable)
   b) RPI inflation
   c) CPI inflation rate
   d) Earnings inflation

3) DEMOGRAPHIC ASSUMPTIONS
   Rates to be provided at sample ages split by gender

   a) Age Retirement Assumptions (split between members with and without Rule of 85 protection)
   b) Rates of Ill-health Retirement from Active service
   c) Distribution of ill health retirements between tiers 1, 2 and 3
   d) Rates of Withdrawal from Active service
   e) Death in Service Rates
   f) Promotional Salary Scale (if not included in earnings inflation assumption)
   g) Proportions Partnered
   h) Age disparity between Member & Partner
   i) Commutation Assumptions
   j) Assumed life expectancy for pensioner members aged 65 and active / deferred members at age 65 if they are currently aged 45 (for members retiring on normal health, members retiring on ill health and dependents)
   k) Description of post retirement mortality assumption (baseline and future improvements)

4) ASSETS
   a) Value of Assets (market value)
   b) Actual Asset Distribution (split by UK equities, overseas equities, corporate bonds, gilts, property, cash and other investments).

5) LIABILITIES AND FUTURE CONTRIBUTION RATE
   a) Common contribution rate
   b) Standard Contribution Rate
   c) Contribution rate in respect of surplus or deficit
   d) Assumed member contribution yield
   e) Expenses, split by administration and (if not included implicitly in discount rate) investment

f) Past Service Liability – split between Actives, Deferred and Pensioners
g) Funding Level
h) Surplus / Deficit at valuation date
i) Deficit Recovery Period
j) Past Service Liability (on a low risk / gilts basis) – split between Actives, Deferred and Pensioners

6) REVENUE ACCOUNTS
a) Value of assets at last valuation (after any smoothing or other adjustments)
b) Value of assets at this valuation (after any smoothing or other adjustments)
c) Total Income: Employee contributions, normal employer contributions, special employer contributions, transfers in, investment income, other income
d) Total Expenditure: Pensions paid, retirement lump sums paid, other lump sums paid, transfers out, investment expenses, administration expenses, other outgoings

7) ANALYSIS OF SURPLUS (PAST SERVICE LIABILITY)
a) Surplus / Deficit at last valuation
b) Interest on Surplus/Deficit
c) Difference between contribution paid and cost of benefits accrued
d) Experience gains and losses (including amounts in the following categories where analysed: Investment Return experience, Salary Increase experience, Pension Increase experience, Pensioner Mortality experience, Other Demographic experience)
e) Change in assumptions (including amounts in the following categories where analysed: financial assumptions, mortality assumptions, other demographic assumptions)
f) Other
g) Surplus / Deficit at this valuation

8) ANALYSIS OF CHANGE IN FUTURE SERVICE CONTRIBUTION RATE
a) Future service rate at last valuation
b) Effect of change in assumptions (including amounts in the following categories where analysed: financial assumptions, mortality assumptions, other demographic assumptions)
c) Change due to introduction new benefit design from April 2014
d) Other
e) Future service rate at this valuation (common contribution rate)

9) AVERAGE EMPLOYER CONTRIBUTION RATE
a) Average employer contribution rate 2014/15, allowing for both contributions paid as a percentage of salary and fixed monetary contributions (where deficit contributions are fixed)

10) EXPERIENCE OVER THE INTERVALUATION PERIOD
Please only provide data that is readily available

a) Actual and expected numbers of deaths in service
b) Actual and expected numbers of withdrawals
c) Actual and expected numbers of age retirements
d) Actual and expected numbers of ill-health retirements
e) Actual and expected pensioner deaths (by lives and amount of pension).
f) Actual and expected numbers of severance / redundancy
g) Actual and assumed amount of commuted lump sum

11) POST 2014 SCHEME

a) Proportion of members assumed to be in 50/50 scheme
b) State Pension Ages used for assessment

Explanatory notes

Common contribution rate: All data requested relates to the common contribution rate, unless otherwise noted.

1 **Membership data:** Average ages should be unweighted, weighted by salary/pension and weighted liability as available. Accrued pensions should include the 2013 Pension Increase Order.

3 **Demographic Assumptions:** We expect this to be shown at sample ages only which will be specified in our template. For example for in service decrement we intend to use five-year intervals from 20 to 65.

3j **Life expectancies:** The life expectancies requested in section 3 j) should be the average life expectancy across the whole fund.

5d **Assumed member contribution yield:** This is the contribution yield that members are assumed to pay over the valuation period. It will vary by authority due to the tiered member contribution rates.

9 **Average employer contribution rate:** This should be calculated as projected employer contributions in 2014/15 divided by projected pensionable pay in 2014/15. Since projected pensionable pay acts only as the weightings in this weighted average, it is acceptable to use a simple projection of pensionable pay (e.g. based on actual pensionable pay at 31 Mar 2013).

10 **Experience over the intervaluation period:** We would only expect experience that has been analysed and is readily available to be included in this section.

11b **State Pension Age used for assessment:** This item refers to the assumed State Pension Ages that have been used in the funding valuation, for example whether allowance has been made for the State Pension Age to increase from age 66 to 67 between 2026 and 2028 (which is Government Policy but has not yet been approved by Parliament).

Adjustment to results for City of Westminster Pension Fund and London Borough of Waltham Forest Pension Fund

C.7 As noted in paragraph 2.9, the purpose of the flags is to identify authorities with whom we might engage and potentially seek additional information from. The importance of clear disclosure in the valuation reports and accurate provision of data from the local authorities and the actuarial firms is highlighted by two examples from our analysis.

C.8 For the City of Westminster Pension Fund, we sought more information from the fund's actuary, clarifying the different actuarial basis that had been applied to some admission bodies, whereas our standard assessment methodology had relied on the same actuarial assumptions being applied for all participating employers in the fund except where this was clear from the valuation report. Based on this additional information, we recalculated our measures and have reported on this revised basis. The result was that Westminster raised only two amber flags.

C.9 For the Borough of Waltham Forest Pension Fund, following engagement with the fund's actuary, we were advised that a material proportion of members had seemingly been incorrectly classified in SF3 data returns. Upon receipt of data reflecting a revised classification of those members, we were able to conclude that Waltham Forest raised only one amber flag.

C.10 Following the 2016 valuation we will request more explicit information and our expectation is that this, together with having highlighted the need for clear and full disclosure and the production of liabilities on the SAB standard basis, will help to improve the overall quality of information provided.

Appendix D: Assumptions

D.1 Each section of analysis contained in the main report is based on one of three sets of assumptions:

> The local fund assumptions, as used in the fund's 2013 actuarial valuation

> The SAB standardised set of assumptions, or SAB standard basis

> A market consistent set of assumptions

D.2 Details of local fund assumptions can be found in each fund's actuarial valuation report as at 31 March 2013. An analysis of the differences in assumptions between funds is contained in the 'Consistency' chapter of the main report.

D.3 Details of the SAB standard basis and the market consistent basis can be found in the tables below. Differences between the bases are highlighted in orange.

Table D.1: SAB standard basis[7]

ASSUMPTION	DETAILS
METHODOLOGY	Projected Unit Methodology with 1 year control period
RATE OF PENSION INCREASES	2% per annum
PUBLIC SECTOR EARNINGS GROWTH	3.5% per annum
DISCOUNT RATE	5.06% per annum
POST RETIREMENT MORTALITY RATES	Long term reduction in mortality rates of 1.5% per annum
CHANGES TO STATE PENSION AGE	As legislated
PENSIONER BASELINE MORTALITY	Set locally based on Fund experience
AGE RETIREMENT	Set locally based on Fund experience
ILL HEALTH RETIREMENT RATES	Set locally based on Fund experience
WITHDRAWAL RATES	Set locally based on Fund experience
DEATH BEFORE RETIREMENT RATES	Set locally based on Fund experience
PROMOTIONAL SALARY SCALES	None
COMMUTATION	We have used the SAB future service cost assumption of 65% of the maximum allowable amount. This is equivalent to 23.2% of post 2008 pension and 12.8% of pre 2008 pension
FAMILY STATISTICS	Set locally based on Fund experience

[7] This is the 5 February 2015 iteration, details of which can be found in the minutes of the Scheme Advisory Board's meeting of 5 February 2015 at: http://www.lgpsboard.org/images/PDF/CMCMar2015/Item4-StandardisedFundingAssumptions.pdf

Table D.2: Market consistent basis

ASSUMPTION	DETAILS
METHODOLOGY	Projected Unit Methodology with 1 year control period
RATE OF PENSION INCREASES	2.25% per annum
PUBLIC SECTOR EARNINGS GROWTH	4.5% per annum
DISCOUNT RATE	5.92% per annum
POST RETIREMENT MORTALITY RATES	As set out in GAD's 2013 scheme wide actuarial valuation
CHANGES TO STATE PENSION AGE	As legislated
PENSIONER BASELINE MORTALITY	As set out in GAD's 2013 scheme wide actuarial valuation
AGE RETIREMENT	Set locally based on Fund experience
ILL HEALTH RETIREMENT RATES	Set locally based on Fund experience
WITHDRAWAL RATES	Set locally based on Fund experience
DEATH BEFORE RETIREMENT RATES	Set locally based on Fund experience
PROMOTIONAL SALARY SCALES	Set locally based on Fund experience
COMMUTATION	Set locally based on Fund experience
FAMILY STATISTICS	Set locally based on Fund experience

D.4 The financial assumptions under the market consistent basis were set with reference to GAD's best estimate view of future market movements as at 31 March 2013.

D.5 The post-retirement mortality assumptions are as set out in GAD's 2013 scheme wide actuarial valuation and were derived after analysing scheme wide mortality experience. The market consistent basis uses these assumptions rather than those set locally as analysis showed local rates, when taken as a whole, were materially higher (i.e. life expectancies were materially lower) than GAD's 2013 scheme wide rates.

D.6 Promotional salary scales and rates of commutation are likely to vary between funds. The market consistent basis allows for this variation by using the rates set in the local 2013 actuarial valuations.

Appendix E: Solvency measures – methodology

E.1 This Appendix details the methodology behind the measures used to assess a fund's solvency position. Some of the measures listed below were calculated using a market consistent set of assumptions. For more information on this market consistent basis please see Appendix D.

***SAB funding level:** A fund's funding level using the SAB standard basis*

E.2 This measure highlights possible risks to a fund as a result of assets being significantly lower than liabilities, where liabilities are those estimated on the SAB standard basis detailed in Appendix D.

E.3 A lower funding level may lead to greater default risk amongst employers without tax raising powers or statutory backing and can leave a fund at greater risk of adverse market movements.

E.4 This measure assesses the relative funding levels of individual funds. All funds have been ordered by this measure (highest funding level first) and the ten funds ranked 82 to 91, out of 91 are assigned an amber colour code. All other funds are assigned a green colour code.

***Open fund:** Whether the fund is open to new members*

E.5 A scheme that is closed to new members will be closer to maturity than a scheme which is still open. This creates a possible risk to sponsoring employees as there is less scope to make regular contributions and receive investment returns on those contributions. Additionally, if problems do occur with the scheme funding level, the reduced time maturity of the scheme means that additional contributions must be spread over a shorter timeframe, and could be more volatile as a result. Employer interest in the scheme may also start to wane and could lead to a failure to make required contributions in the future.

E.6 This measure is a *'Yes'* when a fund is still open to new members and a *'No'* otherwise. A *'Yes'* results in a green colour code, while a *'No'* results in an amber colour code.

***Non-statutory employees:** The proportion of employees within the fund who are employed by an employer without tax raising powers or statutory backing*

E.7 LGPS regulations require employers to pay contributions set in the valuation. DCLG has confirmed that:

> there is a guarantee of LGPS pension liabilities by a public body;

> that public bodies are incapable of becoming insolvent; and

> governing legislation is designed to ensure the solvency and long term economic efficiency of the Scheme.

E.8 It is important, in this context, that administering authorities and other employers understand the potential cost that may fall on taxpayers in the future if employers without statutory backing or tax raising powers are unable to meet their required contributions and those with such powers become responsible for the accrued costs.

E.9 Data for this measure has been taken from the publically available *'Local government pension scheme funds local authority data: 2014 to 2015'* published by DCLG[8]. The data contains the number of employees within each fund by employer group, where:

> Group 1 refers to local authorities and connected bodies;

> Group 2 refers to centrally funded public sector bodies;

> Group 3 refers to other public sector bodies; and

> Group 4 refers to private sector, voluntary sector and other bodies.

E.10 For the purposes of this measure, and unless information has been provided to the contrary, it has been assumed that employers listed under groups 1 and 2 are those ***with*** tax raising powers or statutory backing and that employers listed under groups 3 and 4 are those ***without*** tax raising powers or statutory backing.

E.11 The measure therefore gives the proportion of employees within the fund that are employed by group 1 and 2 employers as a proportion of all employees within the fund.

E.12 The proportions quoted in this report are based on number of employees as at March 2015 as the required data were not available for March 2013. However, it is assumed that this proportion will not have varied much over the two years from the date of the last triennial actuarial valuations, 31 March 2013. The 2016 Section 13 report will use proportions as at March 2016 which we plan to base on liabilities rather than number of employees.

E.13 The required data were not available for:

> Environment Agency Active Fund;

> London Borough of Haringey Pension Fund; and

> London Borough of Newham Pension Fund.

E.14 Under this measure a fund has been allocated a red colour code if their proportion of employees who are employed by an employer without tax raising powers or statutory backing is greater than 50%.

[8] https://www.gov.uk/government/collections/local-government-pension-scheme

E.15 A fund has been allocated an amber colour code if their proportion of employees who are employed by an employer without tax raising powers or statutory is between 25% and 50%, and a green colour code in all other cases.

***Contribution cover:** Actual contributions paid by the fund as a proportion of local authority income*

E.16 This measure does not form part of this 2013 dry run report as the required data were unavailable. However, it is expected to be used as a measure of solvency in the 2016 Section 13 report.

E.17 Continued solvency of a fund depends on the ongoing ability of employers to pay contributions into the fund, which may be higher or lower than at present. If contributions are a low proportion of income (or outgo) employers are likely to find it easier to cope with any increase in contributions that is required.

E.18 This measure should give the actual contributions paid by the fund in the 2012/13 financial year as a proportion of local authority income over the same year. It is important to note that this measure is based on actual contributions. These may not be the same as the contribution rates derived in a fund's actuarial valuation as contribution rates are sometimes smoothed to reduce volatility. There may also have been additional lump sum contributions made.

E.19 Under this measure, a fund where the actual contributions paid as a proportion of local authority income are higher than x%[9] will be assigned a red colour code.

E.20 A fund where the actual contributions paid as a proportion of local authority income is between x% and y% will be assigned an amber colour code, while funds with a lower proportion will be assigned a green colour code.

***Liability Shock:** The change in average employer contribution rates as a percentage of payroll after a 10% increase in liabilities*

E.21 Contribution rates are normally specified as a percentage of payroll. They are likely to vary at each triennial actuarial valuation in response to economic conditions, both at the time of the valuation and assumed future economic conditions, and fund experience over the inter-valuation period. These factors could cause either an increase or decrease in required contributions.

[9] Where a measure does not form part of the 2013 dry run report trigger points are listed as x% or y%. The actual level of these trigger point will be determined when completing the section 13 review following the 2016 local valuations.

E.22 The continued solvency of a fund depends on the ongoing ability of employers to pay the required contributions into the fund, whether they are higher or lower than at present. If contributions are a low proportion of a fund's payroll employers are likely to find it easier to meet increased required contributions.

E.23 Total employer contribution rates are often split into contributions required to cover the expected cost of future accrual of benefits and contributions required to eliminate any existing deficit. Contributions in respect of deficit will increase if a fund's deficit increases, i.e. if a fund's asset value falls or liabilities increase, assuming the assumptions underlying the deficit remain unchanged.

E.24 This measure investigates the effect of an increase in a fund's liabilities on total employer contribution rates, as a proportion of payroll. The necessary calculations have been undertaken by simulating a one-off increase to liabilities of 10% of their 31 March 2013 value. For the purposes of this measure, liabilities have been set out on the standardised market consistent basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable. Where a fund is in surplus under the standardised market consistent basis, the surplus is assumed to be paid back to the employer over a period of 20 years through reduced contribution rates.

E.25 The measure is the change in total employer contribution rate from the resulting from the increase to liabilities. A high figure indicates that contributions rates as a proportion of payroll are highly sensitive to a change in liabilities. This could be a result of a low payroll.

E.26 A fund is allocated a red colour code if its result is greater than 7.5%, an amber colour code if its result is between 5.0% and 7.5% and a green colour code otherwise.

E.27 Note that no results are available for the Environment Agency Closed Fund as there are no remaining active members within the fund with which to calculate contribution rates.

Liability shock cover: *The change in average employer contribution rates as a percentage of local authority income after a 10% increase in liabilities*

E.28 This measure does not form part of this 2013 Section 13 report as the required data were unavailable. However, it is expected to be used as a measure of solvency in the 2016 Section 13 report.

E.29 The results under this measure are expected to be similar to those under the liability shock measure. This measure may therefore be used instead of, rather than in addition to, liability shock in the 2016 Section 13 Report.

E.30 It is likely that a fund where the required employer contributions are a low proportion of total income (or outgo) will be more able to meet any increase in contributions required at future valuations

E.31 Under both measures a fund will be allocated a red colour code if its result is greater than x%, an amber colour code if its result is between x% and y%, and a green colour code otherwise.

Asset shock: *The change in average employer contribution rates as a percentage of payroll after a 15% fall in value of return-seeking assets*

E.32 This measure shows the effect on total employer contribution rates (as a percentage of payroll) of a one off decrease in the value of a fund's return seeking assets equal to 15% of the value of those assets. Defensive assets are assumed to be unaffected.

E.33 For the purposes of this measure liabilities have restated on the standardised market consistent basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable. Where a fund is in surplus under the standardised market consistent basis, the surplus is assumed to be paid back to the employer over a period of 20 years.

E.34 Return-seeking asset classes are assumed to be:

> Overseas Equities;

> UK Equities;

> Other Investments; and

> Property.

Defensive asset classes are assumed to be:

> Cash;

> Gilts; and

> Corporate Bonds.

E.35 We investigated the 'Other Investments' category in respect of the two funds flagged up red under this measure and it was found that only West Midland ITA had a significant amount, of which just over 80% related to a buy-in policy. This buy-in policy has been allowed for as a defensive asset in our calculations.

E.36 Under this measure, a fund invested entirely in return-seeking assets will experience a decrease in total asset value of 15%. A fund with no exposure to return-seeking assets will experience no decrease in total asset value. In practice, the majority of funds will experience decreases between these two extremes, dependant on their investment strategy.

E.37 In general we have treated 'other investments' in the same manner as equities. However, we have investigated the actual nature of 'other investments' where a flag has been raised. We intend to investigate in more depth for our 2016 Section 13 valuation report.

E.38 The one-off decrease in asset values results in an increase in fund deficits (or reduction in surpluses). As deficit recovery periods are constant, employer contributions in respect of deficits will increase. If contributions are a small proportion of payrolls employers are likely to be able to better cope with this increase.

E.39 The measure gives the change in contribution rate from the pre-decrease value. A high number indicates that contribution rates as a proportion of payroll are highly sensitive to a change in the value of return seeking assets.

E.40 A fund is allocated a red colour code if its result is greater than 7.5%, an amber colour code if its result is between 5.0% and 7.5% and a green colour code otherwise.

E.41 Note that no results are available for the Environment Agency Closed Fund as there are no remaining active members within the fund with which to calculate contribution rates.

Asset shock cover: *The change in average employer contribution rates as a percentage of local authority income after a 15% fall in value of return-seeking assets*

E.42 This measure does not form part of this 2013 Section 13 report as the required data were not available. However, it is expected to be used as a measure of solvency in the 2016 Section 13 report.

E.43 The results under this measure are expected to be similar to those under the asset shock measure. This measure may therefore be used instead of, rather than in addition to, the asset shock measure in the 2016 Section 13 Report.

E.44 It is likely that a fund where the required employer contributions are a low proportion of total income (or outgo) will be more able to meet any increase in contributions required at future valuations

E.45 The measure will be calculated in the same way as the asset shock measure, detailed above, except that total contribution rates and the increases resulting from a 15% fall in the value of return-seeking assets will be measured as a percentage of local authority income, rather than a percentage of payroll.

E.46 Under this measure a fund will be allocated a red colour code if its result is greater than x%, an amber colour code if its result is between x% and y% and a green colour code otherwise.

Employer default: *The change in average employer contribution rates as a percentage of payroll if all employer's without tax raising powers or statutory backing default on their existing deficits*

E.47 LGPS regulations require employers to pay contributions set in the valuation. DCLG has confirmed that:

> there is a guarantee of LGPS pension liabilities by a public body;

> that public body is incapable of becoming insolvent; and

> the governing legislation is designed to ensure the solvency and long term economic efficiency of the Scheme.

E.48 It is important, in this context, that administering authorities and other employers understand the potential cost that may fall on taxpayers in the future if employers without statutory backing or tax raising powers are unable to meet their required contributions and those with such powers become responsible for the accrued costs.

E.49 For the purposes of this measure liabilities have been restated on the standardised market consistent basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable. Where a fund is in surplus under the standardised market consistent basis, the surplus is assumed to be paid back to the employer over a period of 20 years.

E.50 A fund's deficit will not change as a result of the default, but as the deficit is spread over a smaller number of employers each the contribution rate for each remaining employer will increase.

E.51 If a fund is in surplus it is assumed that those employers without tax raising powers or statutory backing default on their proportion of the surplus. This will have the effect of reducing contributions for those funds in surplus on the standardised market consistent basis who have a non-zero number of employees employed by employers without tax raising powers or statutory backing.

E.52 The measure shows the increase in total contribution rates that has resulted from the default of employers without tax raising powers or statutory backing.

E.53 Data were not available for:

> Environment Agency Active Fund;

> London Borough of Haringey Pension Fund; and

> London Borough of Newham Pension Fund.

E.54 A fund is allocated a red colour code if its result is greater than 3%, an amber colour code if its result is between 2% and 3% and a green colour code otherwise.

Employer default cover: *Average employer contribution rates as a percentage of local authority income if all employer's without tax raising powers or statutory backing default on their existing deficits*

E.55 This measure does not form part of this 2013 Section 13 report as the required data were not available. However, it is expected to be used as a measure of solvency in the 2016 Section 13 report.

E.56 The results under this measure are expected to be similar to those under the employer default measure. This measure may therefore be used instead of, rather than in addition to, the employer default measure in the 2016 Section 13 Report.

E.57 It is likely that a fund where the required employer contributions resulting from a default of employer's without tax raising powers or statutory backing are a low proportion of total income (or outgo) will be more able to meet any increase in contributions required.

E.58 The measure will be calculated as the increases resulting from the default measured as a percentage of local authority income.

E.59 A fund will be allocated a red colour code if its result is greater than x%, an amber colour code if its result is between x% and y% and a green colour code otherwise.

Appendix F: Solvency measures – by fund

Table F1: Solvency measures by fund

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
AVON	5.9 (82)	92%	YES	6%	+3%	+4%	+0%
BARKING AND DAGENHAM	6.5 (45)	83%	YES	21%	+4%	+3%	+1%
BARNET	6.8 (31)	79%	YES	0%	+4%	+3%	+0%
BEDFORDSHIRE	5.9 (76)	78%	YES	4%	+3%	+3%	+0%
BERKSHIRE	5.9 (78)	73%	YES	6%	+3%	+3%	+1%
BEXLEY	7.4 (14)	99%	YES	7%	+4%	+6%	-0%
BRENT	6.9 (28)	67%	YES	0%	+4%	+3%	+0%
BROMLEY	6.8 (33)	93%	YES	2%	+4%	+5%	+0%
BUCKINGHAMSHIRE	5.6 (87)	81%	YES	5%	+3%	+3%	+0%
CAMBRIDGESHIRE	5.8 (83)	89%	YES	5%	+3%	+4%	+0%
CAMDEN	8.6 (7)	91%	YES	9%	+5%	+6%	+0%
CARDIFF AND GLAMORGAN	6.8 (32)	79%	YES	6%	+4%	+4%	+0%
CHESHIRE	6.5 (41)	95%	YES	8%	+4%	+4%	+0%
CITY OF LONDON	7.3 (18)	83%	YES	9%	+4%	+4%	+1%
CLWYD	6 (73)	83%	YES	1%	+3%	+4%	+0%
CORNWALL	5.8 (84)	93%	YES	7%	+3%	+4%	+0%
CROYDON	6.7 (37)	72%	YES	5%	+4%	+3%	+1%
CUMBRIA	6.7 (38)	96%	YES	0%	+4%	+4%	+0%
DERBYSHIRE	5.9 (77)	96%	YES	5%	+3%	+4%	+0%
DEVON	6.4 (48)	82%	YES	11%	+4%	+4%	+1%
DORSET	6 (74)	82%	YES	9%	+3%	+4%	+1%
DURHAM	6.9 (27)	86%	YES	3%	+4%	+4%	+0%
DYFED	5.6 (88)	105%	YES	4%	+3%	+4%	-0%
EALING	6.3 (53)	88%	YES	11%	+4%	+4%	+0%
EAST RIDING	6.3 (55)	93%	YES	4%	+4%	+4%	+0%

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
EAST SUSSEX	6.3 (52)	98%	YES	2%	+4%	+5%	-0%
ENFIELD	6.1 (66)	85%	YES	3%	+4%	+3%	+0%
ENVIRONMENT AGENCY ACTIVE	5.8 (85)	103%	YES	N/A	+3%	+4%	N/A
ESSEX	6.2 (65)	83%	YES	16%	+4%	+4%	+1%
GLOUCESTERSHIRE	6.7 (36)	83%	YES	9%	+4%	+4%	+1%
GREATER MANCHESTER	7.2 (22)	103%	YES	22%	+4%	+5%	-1%
GREENWICH	7.2 (21)	85%	YES	6%	+4%	+5%	+0%
GWENT	5.9 (79)	84%	YES	6%	+3%	+4%	+0%
GWYNEDD	5.2 (90)	102%	YES	5%	+3%	+4%	-0%
HACKNEY	7.4 (15)	86%	YES	0%	+4%	+5%	+0%
HAMMERSMITH	8.9 (6)	83%	YES	6%	+5%	+6%	+0%
HAMPSHIRE	6.4 (50)	80%	YES	3%	+4%	+3%	+0%
HARINGEY	7.8 (11)	84%	YES	N/A	+4%	+5%	N/A
HARROW	6.6 (39)	83%	YES	2%	+4%	+4%	+0%
HAVERING	6.8 (34)	68%	YES	1%	+4%	+3%	+0%
HERTFORDSHIRE	6.4 (49)	94%	YES	6%	+4%	+4%	+0%
HILLINGDON	6.2 (64)	83%	YES	25%	+4%	+3%	+1%
HOUNSLOW	6.3 (58)	84%	YES	14%	+4%	+3%	+1%
ISLE OF WIGHT	7.4 (16)	94%	YES	3%	+4%	+5%	+0%
ISLINGTON	6.8 (30)	86%	YES	7%	+4%	+4%	+0%
KENSINGTON AND CHELSEA	7.7 (13)	96%	YES	5%	+4%	+6%	-0%
KENT	6.2 (63)	83%	YES	10%	+4%	+4%	+1%
KINGSTON-UPON-THAMES	6.1 (71)	85%	YES	6%	+3%	+4%	+0%
LAMBETH	8.9 (5)	87%	YES	5%	+5%	+5%	+0%
LANCASHIRE	6.1 (70)	93%	YES	7%	+3%	+4%	+0%
LEICESTERSHIRE	5.7 (86)	85%	YES	5%	+3%	+3%	+0%
LEWISHAM	7.8 (10)	86%	YES	16%	+4%	+5%	+1%
LINCOLNSHIRE	6.3 (56)	85%	YES	8%	+4%	+4%	+0%

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
LONDON PENSIONS FUND	9.6 (4)	92%	YES	0%	+6%	+4%	+0%
MERSEYSIDE	7.3 (17)	92%	YES	13%	+4%	+5%	+0%
MERTON	7.1 (25)	91%	YES	3%	+4%	+4%	+0%
NEWHAM	7.3 (19)	75%	YES	N/A	+4%	+4%	N/A
NORFOLK	6.6 (40)	91%	YES	9%	+4%	+4%	+0%
NORTH YORKSHIRE	5.3 (89)	87%	YES	3%	+3%	+3%	+0%
NORTHAMPTONSHIRE	6.2 (60)	85%	YES	4%	+4%	+4%	+0%
NORTHUMBERLAND	8.2 (8)	84%	YES	6%	+5%	+5%	+0%
NOTTINGHAMSHIRE	6.3 (54)	85%	YES	6%	+4%	+4%	+0%
OXFORDSHIRE	5.9 (75)	85%	YES	36%	+3%	+4%	+2%
POWYS	6.4 (46)	82%	YES	3%	+4%	+3%	+0%
REDBRIDGE	6.3 (51)	83%	YES	9%	+4%	+3%	+0%
RHONDDA CYNON TAF	6.1 (68)	77%	YES	5%	+3%	+3%	+0%
RICHMOND	7.1 (24)	97%	YES	3%	+4%	+5%	-0%
SHROPSHIRE	6.5 (43)	88%	YES	10%	+4%	+4%	+0%
SOMERSET	5.9 (80)	74%	YES	13%	+3%	+3%	+1%
SOUTH YORKSHIRE	6.4 (47)	94%	YES	10%	+4%	+4%	+0%
SOUTH YORKSHIRE PTA	25.2 (1)	114%	NO	100%	+5%	+3%	N/A
SOUTHWARK	7.3 (20)	84%	YES	2%	+4%	+4%	+0%
STAFFORDSHIRE	6.2 (59)	87%	YES	6%	+4%	+4%	+0%
SUFFOLK	6.2 (62)	93%	YES	19%	+4%	+3%	+0%
SURREY	5.9 (81)	86%	YES	5%	+3%	+4%	+0%
SUTTON	6.5 (42)	81%	YES	3%	+4%	+3%	+0%
SWANSEA	6.2 (61)	80%	YES	4%	+4%	+4%	+0%
TEESSIDE	6.8 (29)	103%	YES	13%	+4%	+5%	-0%
TOWER HAMLETS	8.1 (9)	85%	YES	0%	+5%	+5%	+0%
TYNE AND WEAR	7.1 (23)	87%	YES	11%	+4%	+4%	+0%
WALTHAM FOREST	7 (26)	73%	YES	5%	+4%	+4%	+1%

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
WANDSWORTH	7.7 (12)	104%	YES	1%	+4%	+6%	-0%
WARWICKSHIRE	6.1 (67)	92%	YES	6%	+3%	+4%	+0%
WEST MIDLANDS	6.8 (35)	87%	YES	5%	+4%	+4%	+0%
WEST MIDLANDS ITA	25.1 (2)	100%	NO	100%	+5%	+7%	N/A
WEST SUSSEX	6 (72)	102%	YES	6%	+3%	+5%	-0%
WEST YORKSHIRE	6.5 (44)	94%	YES	13%	+4%	+4%	+0%
WESTMINSTER	10.1 (3)	81%	YES	11%	+6%	+6%	+1%
WILTSHIRE	6.1 (69)	85%	YES	20%	+3%	+4%	+1%
WORCESTERSHIRE	6.3 (57)	83%	YES	8%	+4%	+4%	+0%

Notes:

Funding levels are on the SAB standard basis.

The liability value and salary roll figures in the maturity indicator are as at 31 March 2013. The liability value was calculated on the standardised market consistent basis.

The following charts provide a graphical representation of the total contribution rates payable after the liability shock and asset shock tests above.

*Chart F1: **Liability shock** by fund: Average employer contribution rate as a percentage of payroll after a 10% increase in liabilities, market consistent basis.*

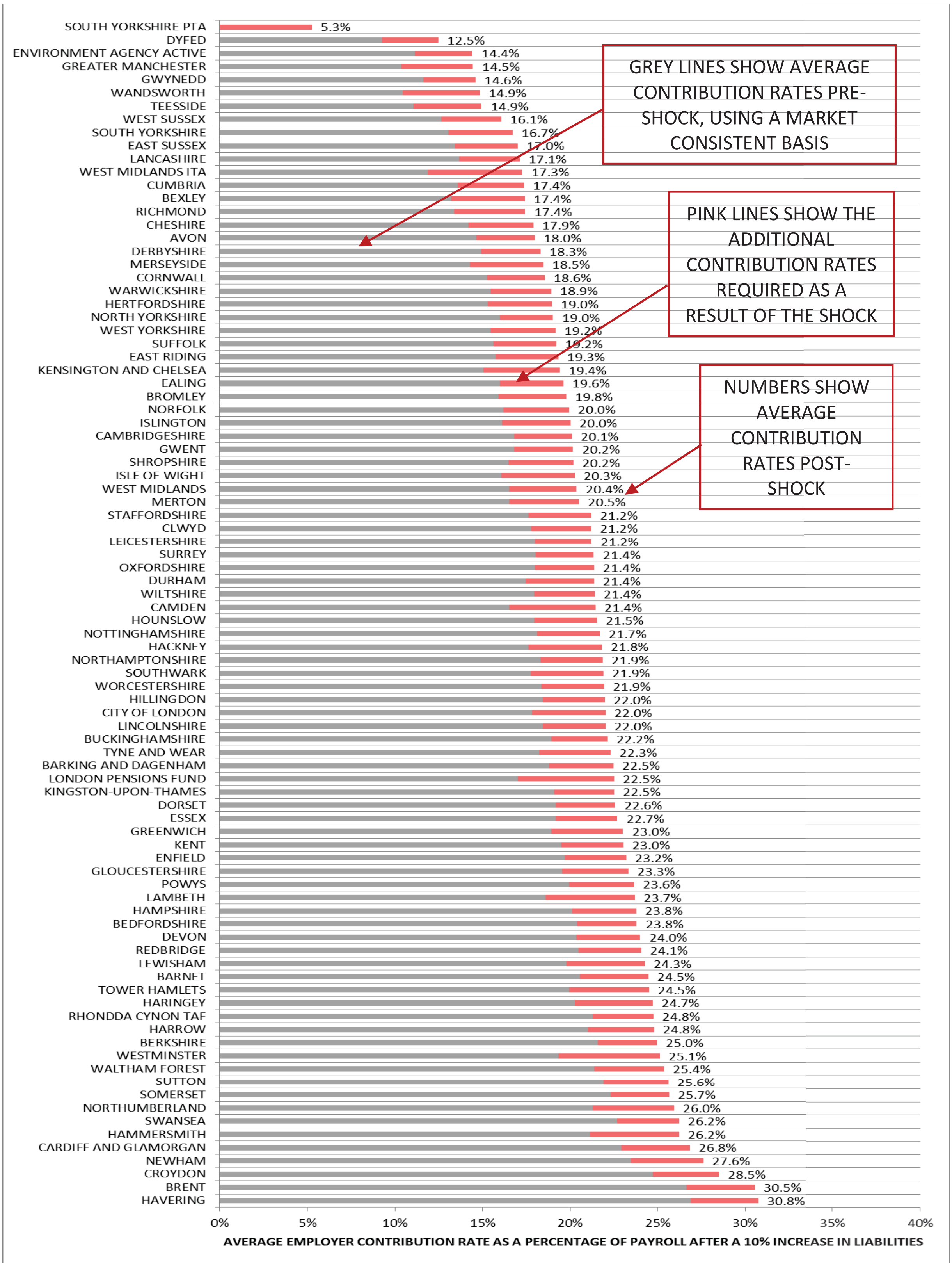
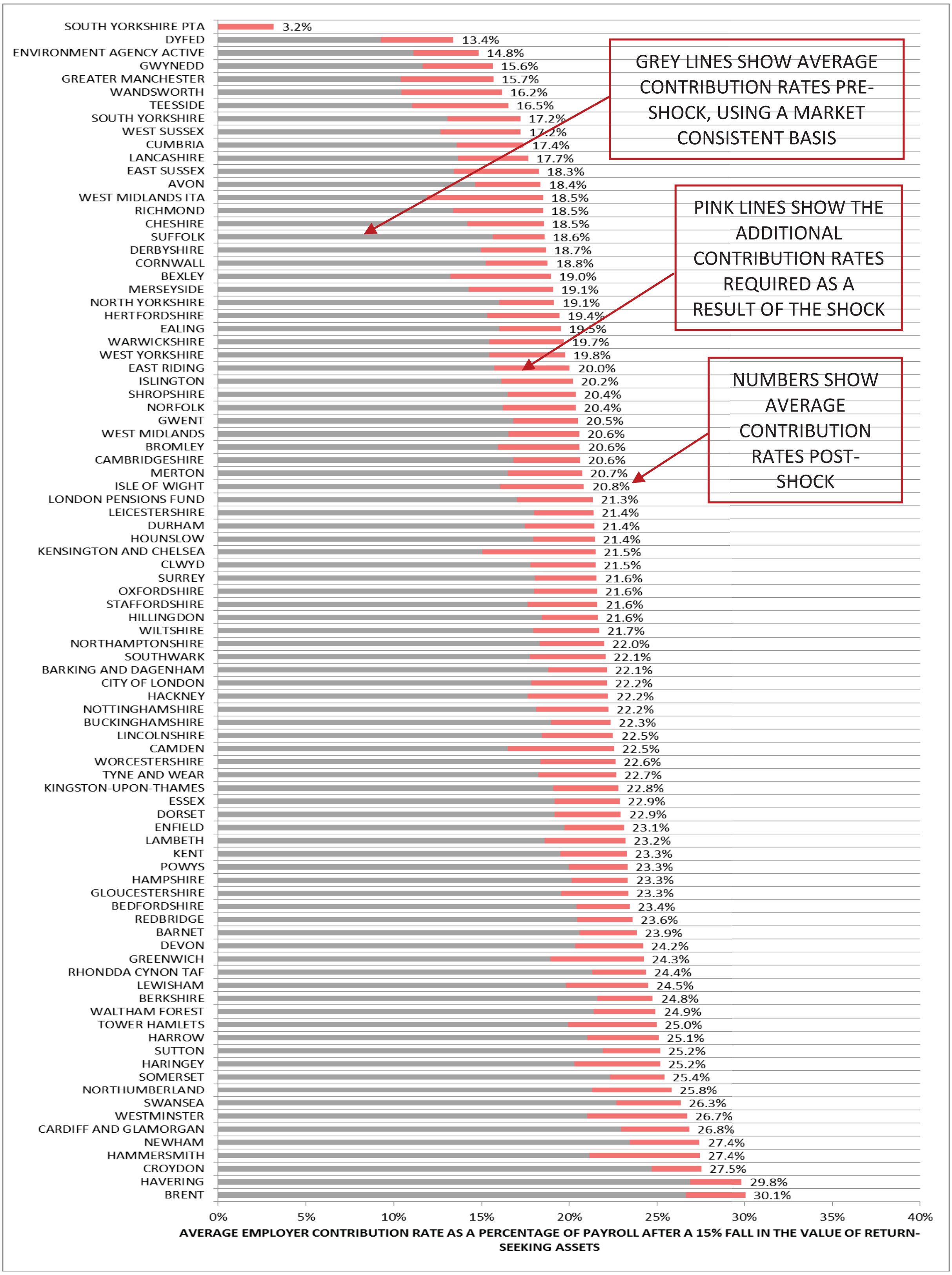


*Chart F2: **Asset shock** by fund: Average employer contribution rate as a percentage of payroll after a 15% fall in value of return seeking assets, market consistent basis.*



Appendix G: Long term cost efficiency measures – methodology

G.1 This Appendix details the methodology behind the measures used to assess a fund's long-term cost efficiency position. Some of the measures listed below were calculated using a market consistent set of assumptions. For more information on this market consistent basis please see Appendix D.

Deficit repaid: *The proportion of deficit paid off annually, where the deficit is calculated on a standardised market consistent basis*

G.2 This measure is based on SAB key indicator 2(i). However, as the discount rate used in the SAB standard basis is not market-related, each fund's deficit and standard contribution rate on the local fund basis have been restated on a standardised market consistent (MC) basis.

G.3 The proportion of deficit paid off annually was calculated as:

$$\frac{(Avg\ ER\ cont\ rate\ paid - ER\ SCR\ on\ MC\ basis) \times Pensionable\ Salary\ roll}{Deficit\ on\ MC\ basis}$$

Where:

- The average employer contribution rate is for the year 2014/15 allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund, where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).
- The employer standard contribution rate on the standardised market consistent basis, is for the year 2014/15. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.
- The salary roll is as at 31 March 2013 and has not been adjusted.
- The deficit on the standardised market consistent basis is as at 31 March 2013.

G.4 The data required for each of the funds to carry out the above calculation was provided by their respective fund actuaries.

G.5 Where appropriate this data has been restated on the standardised market consistent basis.

G.6 Funds that were in surplus or were paying off more than 5% of their deficit annually were flagged as green. Those funds paying off between 0% - 5% of their deficit were flagged as amber and if there were any funds that were actually paying contributions that would result in an increase in deficit, they would have been flagged as red.

Deficit period: *The implied deficit recovery period calculated on a standardised market consistent basis*

G.7 This measure is based on SAB key indicator 3. However, as the SCAPE discount rate used in the SAB standard basis is not market-related, the calculations are done on a standardised market consistent basis.

G.8 The implied deficit recovery period on the standardised market consistent basis was found by solving the following equation for x:

$$\bar{a}_x = \frac{Deficit\ on\ standardised\ MC\ basis}{Annual\ deficit\ recovery\ payment\ on\ standardised\ MC\ basis}$$

G.9 Where:

> x is the implied deficit recovery period.

> $\bar{a}_x$ is a continuous annuity over x years at the rate of interest equal to $\frac{1+i}{1+e} - 1$.

> i is the nominal discount rate assumption on the standardised market consistent basis.

> e is the general earnings inflation assumption on the standardised market consistent basis.

> The deficit on the standardised market consistent basis is as at 31 March 2013.

> The annual deficit recovery payment on the standardised market consistent basis is calculated as the difference between the average employer contribution rate for the year 2014/15, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund, where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll), and the employer standard contribution rate on the standardised market consistent basis for the year 2014/15 (which is assumed to be equal to the future cost of accrual of that particular fund).

G.10 Funds that were in surplus or where the implied deficit recovery period was less than 20 years were flagged as green. Those with recovery periods greater than 20 years were flagged as amber. If there were any funds that were paying contributions as a level that would result in an increase in deficit, they would have been flagged as red.

Required return: *The required investment return rates to achieve full funding in 20 years' time on the standardised market consistent basis*

G.11 This measure is based on SAB key indicator 4(i). However, as the SCAPE discount rate used in the SAB standard basis is not market-related, the calculations are done on a standardised market consistent basis.

G.12 The following assumptions were made for the purposes of this calculations:

- Time 0 is 31 March 2013.
- Time 20 is 31 March 2033.
- A_0 is the value of the fund's assets at time 0, and was obtained from the data provided by the local fund actuaries.
- A_{20} is the value of the fund's assets at time 20.
- L_0 is the value of the fund's liabilities at time 0, and was obtained from the data provided by the local fund actuaries.
- L_{20} is the value of the fund's liabilities at time 20.
- C_0 is one year's employer contributions paid from time 0. (DCLG's SF3 statistics for the year 2014/15 were used for this purpose).
- $C_{0\text{-}20}$ is the total employer contributions payable over the period time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).
- B_0 is the value of one year's benefits paid (excluding transfers) from time 0. (DCLG's SF3 statistics for the year 2014/15 were used for this purpose).
- $B_{0\text{-}20}$ is the total value of benefits payable (excluding transfers) over the period time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).
- SCR_0 is the standard contribution rate payable from time 0 to time 1 and was calculated by restating the standard contribution rates on the local fund bases using the market consistent basis.
- $SCR_{0\text{-}20}$ is the standard contribution rate payable from time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).
- Sal_0 is the salary roll at time 0 and was obtained from the data provided by the local fund actuaries.
- i is the nominal discount rate assumption on the standardised market consistent basis.
- e is the general earnings assumption on the standardised market consistent basis.
- x is the required investment return that is to be calculated.

G.13 The membership profile is assumed to be constant.

G.14 The assets and liabilities at time 20 were then equated and the resulting quadratic equation solved to find the required rate of investment return to achieve full funding, i.e.:

$$A_{20} - L_{20} = 0$$

Where:

- $A_{20} = [A_0 \times (1+x)^{20}] + [(C_{0-20} - B_{0-20}) \times (1+x)^{10}]$
- $L_{20} = [L_0 \times (1+i)^{20}] + [(SCR_{0-20} - B_{0-20}) \times (1+i)^{10}]$
- $C_{0-20} = C_0 \times 20 \times (1+e)^{10}$
- $B_{0-20} = B_0 \times 20 \times (1+e)^{10}$
- $SCR_{0-20} = Sal_0 \times SCR_0 \times 20 \times (1+e)^{10}$

G.15 Given the assumptions and simplifications made in the above calculations, the use of the contribution income and benefit payments from the 2014/15 SF3 data is not likely to have a material impact on the results.

G.16 Funds where the required investment return was higher than the nominal discount rate on the standardised market consistent basis (i.e. i where i = 5.92%) were classified as amber, whereas funds were classified as green if the required return was less than i.

Repayment shortfall: *The difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off deficit in 20 years, where the deficit is calculated on a standardised market consistent basis*

G.17 This measure extends the deficit period measure. We calculate the required annual deficit recovery contribution rate on a standardised market consistent basis to pay off the deficit in 20 years' time, and then work out the difference between the actual deficit recovery contribution rate and this rate.

G.18 The 20 year deficit recovery period is based on the SAB key indicator 4(i).

G.19 The required annual deficit recovery contribution rate to be paid on a standardised market consistent basis is equal to:

$$\frac{Deficit\ on\ standardised\ market\ consistent\ basis}{\bar{a}_{20}\ \times Salary\ roll}$$

Where:

- The deficit on the standardised market consistent basis is as at 31 March 2013.
- $\bar{a}_{20}$ is a continuous annuity over the 20 year deficit recovery period at the rate of interest equal to $\frac{1+i}{1+e} - 1$.
- i is the nominal discount rate assumption on the standardised market consistent basis.

> e is the general earnings inflation assumption on the standardised market consistent basis.

> The salary roll is as at 31 March 2013 and has not been adjusted.

G.20 The difference in deficit recovery contribution rates is then defined as:

$$(Avg\ ER\ cont\ rate\ paid - ER\ SCR\ on\ MC\ basis) - \frac{Deficit\ on\ MC\ basis}{\bar{a}_{20}\ \times Salary\ roll}$$

Where:

> The average employer contribution rate is for the year 2014/15, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund where deficit contributions are fixed ((i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).

> The employer standard contribution rate on the standardised market consistent basis is for the year 2014/15. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.

G.21 The data required for each of the funds to carry out the above calculation was provided by their respective fund actuaries.

G.22 Where appropriate these data has been restated on the standardised market consistent basis.

G.23 Funds where the difference in deficit recovery contribution rates is greater than 0% are flagged as green. Where the difference between contribution rates is between 0% and -3%, the funds are flagged as amber. If the difference in deficit recovery contribution rates is less than -3%, then the fund is flagged as red.

Repayment pace: *The amount of deficit paid off over each future valuation period, as a proportion of the deficit disclosed at the last valuation, and the number of years required to pay off 50% of the value of the original deficit, where the deficit calculations are carried out on a standardised market consistent basis*

G.24 The data required to calculate this measure was not available during this dry run. However, we expect this calculations to be included as part of the Section 13 report following the 2016 valuations.

G.25 This first part of this measure is similar to deficit repaid, whilst the second part of this measure is similar to deficit period. Both calculations will need to be carried out on the standardised market consistent basis.

G.26 Part one requires funds to set out what proportion of the deficit they intend to pay off in each of the future valuation periods. Part two requires funds to set out the point in time when they would pay off 50% of the value of the original deficit.

***Return scope:** The required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained*

G.27 This measure is based on SAB key indicator 4(ii).

G.28 The required investment return (x) calculated in the required return measure was compared against the best estimate investment return expected from the fund's assets held on 31 March 2013.

G.29 The asset data used in this calculation was provided by each fund's respective fund actuary.

G.30 Funds where the best estimate future returns were higher than the required investment return by 0.5% or more were flagged as green. Those funds where this difference was between 0% and 0.5% were flagged as amber, whilst those where the best estimate returns were lower than the required investment returns were flagged as red.

***Deficit extension:** The change in each fund's reported deficit recovery period from the 2010 valuation to the 2013 valuation*

G.31 This measure compares the deficit recovery periods as at 31 March 2010 and 31 March 2013, using the data provided by each fund's actuary.

G.32 Funds where the deficit recovery period had increased by more than 6 years were flagged as red, where the deficit recovery period had increased by less than 6 years were flagged as amber and where there was no change or the deficit recovery period was shorter in 2013 were flagged as green.

***Interest cover:** A check on whether the annual deficit recovery contributions paid by the fund are sufficient to cover the annual interest payable on that deficit, where the deficit is calculated on a standardised market consistent basis*

G.33 This measure was triggered if the following inequality did not hold true:

$$(Avg\ ER\ cont\ rate\ paid - ER\ SCR\ on\ MC\ basis) \times Sal\ roll > Deficit\ on\ MC\ basis\ \times i$$

Where:

- The average employer contribution rate is for the year 2014/15, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).

- The employer standard contribution rate on the standardised market consistent basis is for the year 2014/15. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.
- The salary roll is as at 31 March 2013 and has not been adjusted.
- The deficit on the standardised market consistent basis is as at 31 March 2013.
- i is the nominal interest rate assumption on the standardised market consistent basis.

G.34 The data required for each of the funds to carry out the above calculation was provided by their respective fund actuaries.

G.35 Where appropriate these data have been restated on the standardised market consistent basis.

G.36 Funds that paid sufficient annual deficit recovery contributions to cover the annual interest payable on the deficit were flagged as green, whilst those that did not were flagged as red.

Deficit reconciliation: *Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience*

G.37 The data required to calculate this measure were not available during this dry run. However, we expect this calculations to be included as part of the Section 13 report following the 2016 valuations.

G.38 This measure will be used to monitor the change in the length of the deficit recovery period set locally by the fund at each valuation and what the underlying reasons are for any adverse changes in this period.

G.39 For example, if a fund's deficit recovery period has increased from the value calculated in the previous valuation, was this due to the fund not paying sufficient deficit recovery contributions over the inter-valuation period, or was this due unfavourable demographic experience, such as increasing longevity.

Surplus retention: *Confirmation that contributions from funds not in deficit are not likely to lead to a deficit arising in the future.*

G.40 Note that all the funds that were in surplus on the market consistent basis were paying sufficient contributions to cover ongoing accrual of benefits on that basis.

G.41 This measure has therefore been excluded from our tables of long term cost efficiency measures for the purposes of the LGPS England and Wales Section 13 Dry Run Report as no funds triggered an amber or red flag.

G.42 This measure looks at the funding level of the funds that were in surplus on the standardised market consistent basis.

G.43 The fund would be need to pay sufficient contributions after allowing for future costs of accrual, such that:

$$Avg\ ER\ cont\ rate\ paid - ER\ SCR\ on\ MC\ basis > 0$$

Where:

> The average employer contribution rate is for the year 2014/15, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).

> The employer standard contribution rate on the standardised market consistent basis is for the year 2014/15. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.

G.44 The data required for each of the funds to carry out the above calculation were provided by their respective fund actuaries.

G.45 Where appropriate these data have been restated on the standardised market consistent basis.

Appendix H: Long term cost efficiency measures – by fund

Table H1: Long term cost efficiency measures by fund

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
AVON	5.9 (82)	>50%	1	2%	16%	4.3%	-3	Yes
BARKING AND DAGENHAM	6.5 (45)	18%	6	3%	9%	2.5%	0	Yes
BARNET	6.8 (31)	15%	7	3%	9%	2.2%	0	Yes
BEDFORDSHIRE	5.9 (76)	11%	9	4%	6%	1.8%	0	Yes
BERKSHIRE	5.9 (78)	4%	34	6%	-2%	-0.5%	-3	No
BEXLEY	7.4 (14)	IN SURPLUS	IN SURPLUS	4%	7%	2.5%	0	Yes
BRENT	6.9 (28)	9%	12	4%	6%	2.3%	-3	Yes
BROMLEY	6.8 (33)	>50%	2	3%	13%	3.1%	3	Yes
BUCKINGHAMSHIRE	5.6 (87)	8%	13	5%	2%	1.2%	-3	Yes
CAMBRIDGESHIRE	5.8 (83)	18%	6	4%	5%	2.1%	0	Yes
CAMDEN	8.6 (7)	43%	2	3%	14%	3.2%	0	Yes
CARDIFF AND GLAMORGAN	6.8 (32)	9%	13	5%	3%	0.9%	-2	Yes
CHESHIRE	6.5 (41)	>50%	0	2%	14%	3.9%	0	Yes
CITY OF LONDON	7.3 (18)	7%	15	5%	1%	0.8%	0	Yes
CLWYD	6 (73)	17%	6	3%	8%	2.7%	-2	Yes
CORNWALL	5.8 (84)	>50%	2	3%	9%	2.4%	0	Yes
CROYDON	6.7 (37)	8%	14	5%	3%	1.2%	-2	Yes
CUMBRIA	6.7 (38)	>50%	0	2%	19%	3.7%	-3	Yes
DERBYSHIRE	5.9 (77)	>50%	0	4%	7%	1.7%	0	Yes
DEVON	6.4 (48)	7%	15	5%	2%	0.6%	-5	Yes
DORSET	6 (74)	8%	15	5%	1%	0.8%	0	Yes
DURHAM	6.9 (27)	16%	6	4%	7%	1.5%	-1	Yes
DYFED	5.6 (88)	IN SURPLUS	IN SURPLUS	3%	7%	3.0%	0	Yes
EALING	6.3 (53)	20%	5	4%	8%	2.0%	-3	Yes
EAST RIDING	6.3 (55)	>50%	2	3%	10%	2.6%	0	Yes

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
EAST SUSSEX	6.3 (52)	IN SURPLUS	IN SURPLUS	3%	9%	3.2%	0	Yes
ENFIELD	6.1 (66)	12%	9	5%	4%	0.7%	0	Yes
ENVIRONMENT AGENCY ACTIVE	5.8 (85)	IN SURPLUS	IN SURPLUS	N/A	N/A	N/A	3	N/A
ESSEX	6.2 (65)	14%	8	4%	6%	2.1%	0	Yes
GLOUCESTERSHIRE	6.7 (36)	19%	6	3%	10%	2.9%	0	Yes
GREATER MANCHESTER	7.2 (22)	IN SURPLUS	IN SURPLUS	2%	8%	3.7%	0	Yes
GREENWICH	7.2 (21)	8%	13	5%	2%	1.2%	0	Yes
GWENT	5.9 (79)	13%	8	5%	5%	1.5%	5	Yes
GWYNEDD	5.2 (90)	IN SURPLUS	IN SURPLUS	2%	10%	3.8%	0	Yes
HACKNEY	7.4 (15)	40%	3	1%	19%	5.4%	-2	Yes
HAMMERSMITH	8.9 (6)	9%	12	5%	4%	1.0%	-3	Yes
HAMPSHIRE	6.4 (50)	9%	12	5%	3%	0.6%	-3	Yes
HARINGEY	7.8 (11)	14%	7	4%	7%	1.8%	0	Yes
HARROW	6.6 (39)	9%	12	5%	3%	1.0%	0	Yes
HAVERING	6.8 (34)	8%	14	4%	3%	1.4%	0	Yes
HERTFORDSHIRE	6.4 (49)	>50%	1	3%	11%	2.9%	0	Yes
HILLINGDON	6.2 (64)	12%	9	4%	4%	1.3%	0	Yes
HOUNSLOW	6.3 (58)	12%	9	5%	5%	1.1%	0	Yes
ISLE OF WIGHT	7.4 (16)	>50%	2	4%	9%	2.4%	0	Yes
ISLINGTON	6.8 (30)	18%	6	4%	8%	1.8%	-3	Yes
KENSINGTON AND CHELSEA	7.7 (13)	IN SURPLUS	IN SURPLUS	4%	7%	2.1%	-3	Yes
KENT	6.2 (63)	11%	10	5%	5%	1.5%	0	Yes
KINGSTON-UPON-THAMES	6.1 (71)	19%	5	3%	8%	3.0%	0	Yes
LAMBETH	8.9 (5)	30%	3	2%	17%	3.6%	0	Yes
LANCASHIRE	6.1 (70)	>50%	2	4%	10%	1.9%	0	Yes
LEICESTERSHIRE	5.7 (86)	13%	8	5%	4%	1.5%	0	Yes
LEWISHAM	7.8 (10)	11%	9	5%	4%	1.3%	0	Yes
LINCOLNSHIRE	6.3 (56)	14%	8	4%	5%	1.9%	0	Yes

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
LONDON PENSIONS FUND	9.6 (4)	48%	2	2%	20%	4.0%	-3	Yes
MERSEYSIDE	7.3 (17)	>50%	1	1%	24%	4.9%	-3	Yes
MERTON	7.1 (25)	>50%	1	1%	20%	5.2%	-3	Yes
NEWHAM	7.3 (19)	10%	11	4%	6%	2.1%	0	Yes
NORFOLK	6.6 (40)	33%	3	4%	9%	2.4%	0	Yes
NORTH YORKSHIRE	5.3 (89)	27%	4	3%	10%	2.6%	-3	Yes
NORTHAMPTONSHIRE	6.2 (60)	20%	5	4%	9%	2.4%	0	Yes
NORTHUMBERLAND	8.2 (8)	14%	8	4%	7%	1.4%	-3	Yes
NOTTINGHAMSHIRE	6.3 (54)	10%	10	5%	3%	1.2%	0	Yes
OXFORDSHIRE	5.9 (75)	12%	9	4%	4%	1.5%	0	Yes
POWYS	6.4 (46)	12%	9	4%	6%	1.3%	0	Yes
REDBRIDGE	6.3 (51)	13%	8	4%	5%	1.5%	0	Yes
RHONDDA CYNON TAF	6.1 (68)	11%	10	5%	6%	1.3%	0	Yes
RICHMOND	7.1 (24)	IN SURPLUS	IN SURPLUS	3%	13%	3.1%	0	Yes
SHROPSHIRE	6.5 (43)	17%	6	4%	6%	1.6%	0	Yes
SOMERSET	5.9 (80)	5%	24	6%	-1%	0.0%	0	No
SOUTH YORKSHIRE	6.4 (47)	>50%	1	2%	17%	3.7%	-3	Yes
SOUTH YORKSHIRE PTA	25.2 (1)	IN SURPLUS	IN SURPLUS	N/A	11%	N/A	N/A	Yes
SOUTHWARK	7.3 (20)	17%	6	4%	7%	2.0%	-3	Yes
STAFFORDSHIRE	6.2 (59)	23%	5	4%	9%	2.4%	5	Yes
SUFFOLK	6.2 (62)	>50%	1	2%	13%	2.9%	0	Yes
SURREY	5.9 (81)	22%	5	3%	9%	3.0%	0	Yes
SUTTON	6.5 (42)	11%	10	4%	5%	1.4%	0	Yes
SWANSEA	6.2 (61)	10%	10	4%	4%	1.6%	0	Yes
TEESSIDE	6.8 (29)	IN SURPLUS	IN SURPLUS	5%	3%	1.3%	-3	Yes
TOWER HAMLETS	8.1 (9)	22%	5	3%	11%	3.4%	0	Yes
TYNE AND WEAR	7.1 (23)	22%	5	4%	10%	2.2%	0	Yes
WALTHAM FOREST	7 (26)	11%	9	3%	10%	2.4%	0	Yes

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
WANDSWORTH	7.7 (12)	IN SURPLUS	IN SURPLUS	4%	9%	2.3%	-3	Yes
WARWICKSHIRE	6.1 (67)	40%	3	4%	7%	2.4%	0	Yes
WEST MIDLANDS	6.8 (35)	19%	6	4%	8%	2.0%	-3	Yes
WEST MIDLANDS ITA	25.1 (2)	IN SURPLUS	IN SURPLUS	N/A	45%	N/A	N/A	Yes
WEST SUSSEX	6 (72)	IN SURPLUS	IN SURPLUS	3%	9%	2.9%	0	Yes
WEST YORKSHIRE	6.5 (44)	44%	2	5%	2%	0.7%	0	Yes
WESTMINSTER	10.1 (3)	8%	15	5%	3%	0.9%	-5	Yes
WILTSHIRE	6.1 (69)	17%	6	4%	6%	2.1%	0	Yes
WORCESTERSHIRE	6.3 (57)	14%	7	4%	7%	2.0%	2	Yes

Notes:

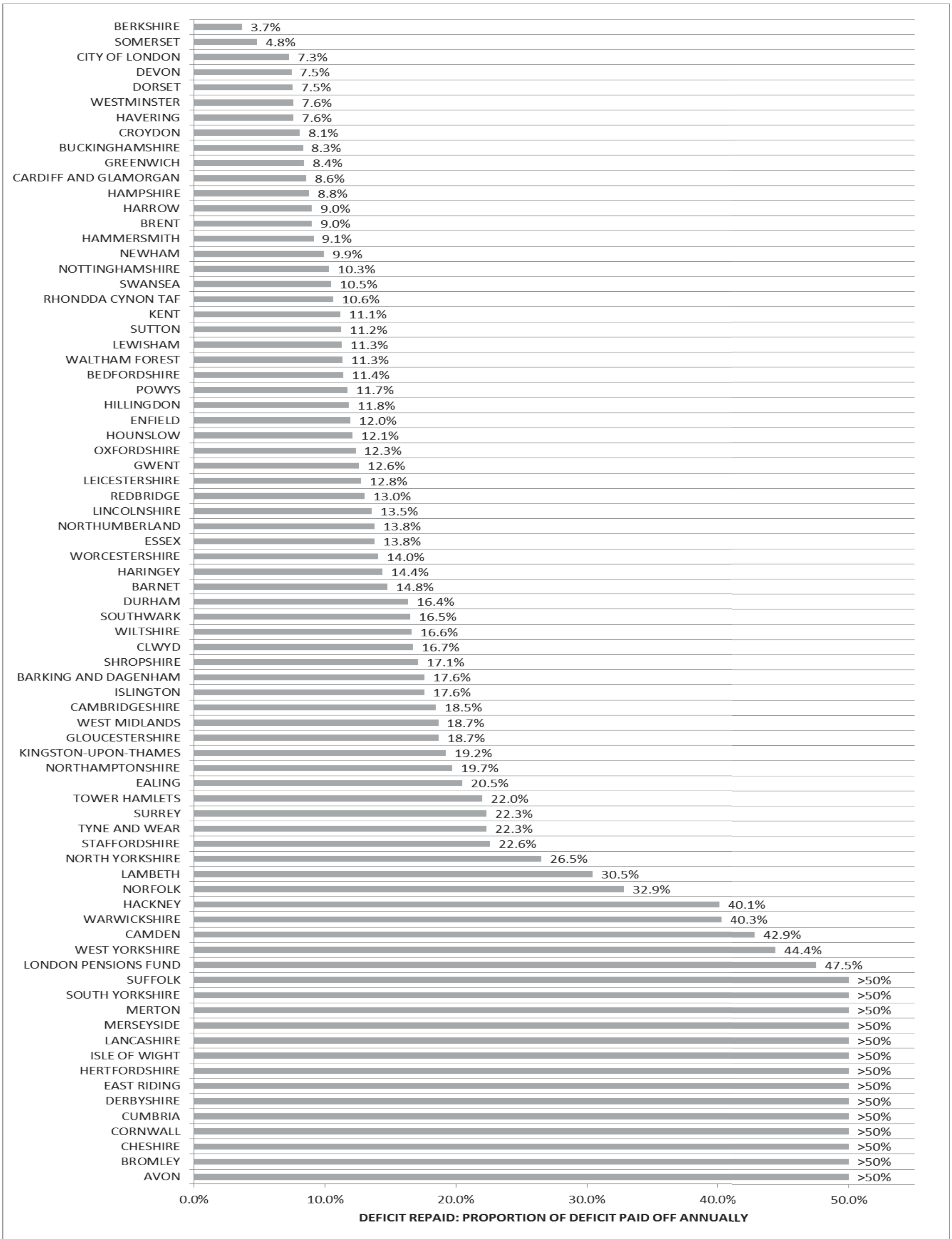
The liability value and salary roll figures in the maturity indicator are as at 31 March 2013. The liability value was calculated on the standardised market consistent basis.

The ‘Required Return’ and ‘Return Scope’ measures were not calculated for South Yorkshire PTA and West Midlands ITA as these are closed funds. They were also not calculated for the Environment Agency Open fund as the DCLG SF3 statistics did not contain data for the fund.

The ‘Deficit Extension’ measure was not calculated for South Yorkshire PTA and West Midlands ITA as information on deficit recovery periods was not available.

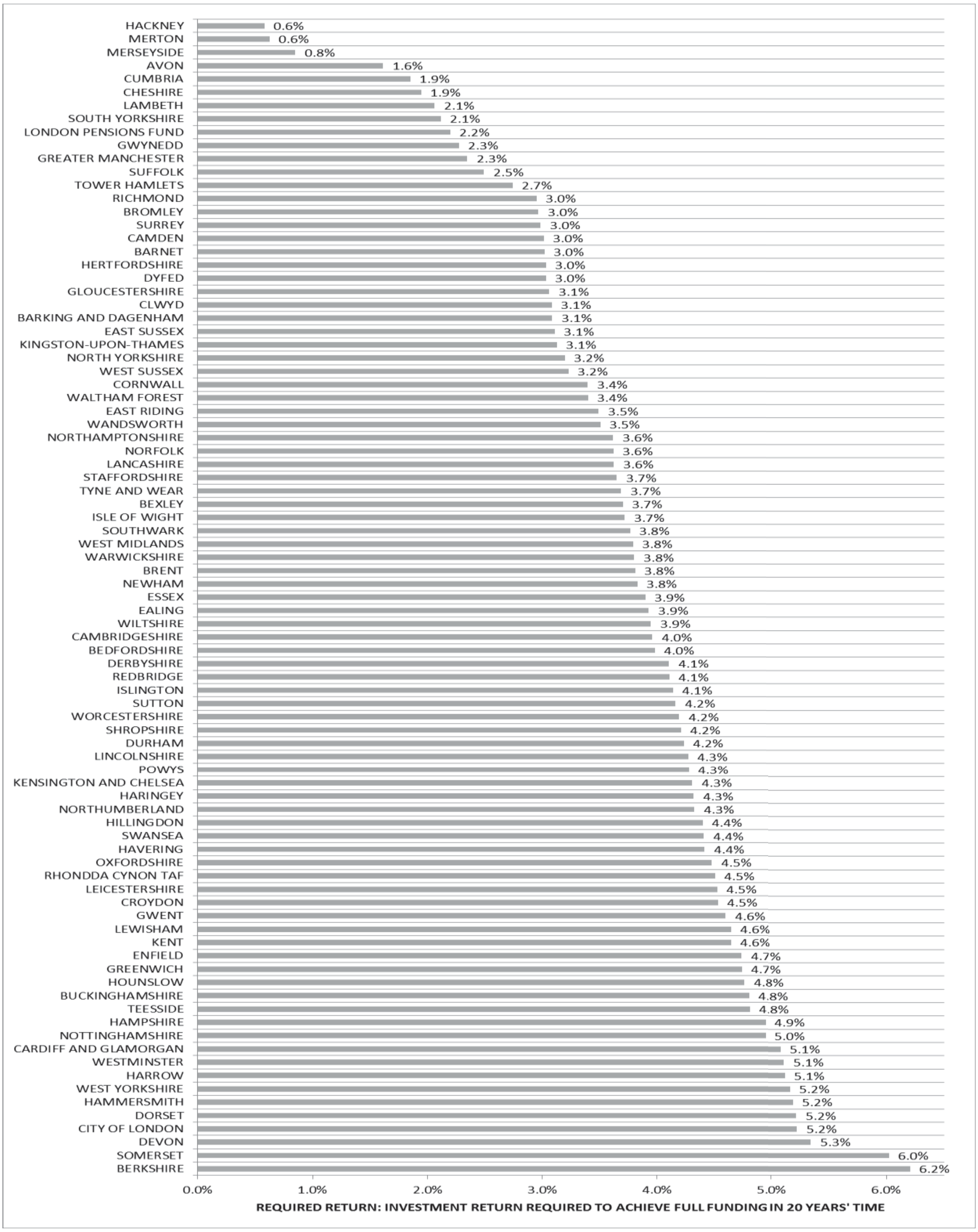
The following charts provide a graphical representation of the ‘Deficit Repaid’ and ‘Required Return’ measures.

*Chart H1: **Deficit Repaid** by fund: The proportion of deficit paid off annually.*



Note: Funds in surplus have been excluded.

Chart H2: ***Required Return*** *by fund: The investment return required to achieve full funding in 20 years' time.*



Note: Neither closed funds nor the Environment Agency Active fund were assessed under this measure.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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Agenda Item 13

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Agenda Item 15

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