



Havering

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

PENSIONS COMMITTEE AGENDA

7.00 pm

**Tuesday
22 November 2016**

**Town Hall, Main Road,
Romford**

Members 7: Quorum 3

COUNCILLORS:

**Conservative
(3)**

John Crowder
(Chairman)
Melvin Wallace
Jason Frost

**Residents'
(2)**

Stephanie Nunn
Nic Dodin

**East Havering
Residents'
(1)**

Clarence Barrett

**UKIP
(1)**

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:
James Goodwin 01708 432432
james.goodwin@OneSource.co.uk**

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 - 8)

To approve as correct the minutes of the meeting held on 20 September 2016 and authorise the Chairman to sign them.

5 SERVICE REVIEW OF THE PENSION FUND CUSTODIAN (Pages 9 - 14)

Report attached.

6 INVESTMENT ADVISOR SERVICE REVIEW AND CONTRACT EXTENSION (Pages 15 - 22)

Report attached.

7 REVIEW OF GOVERNANCE COMPLIANCE STATEMENT (Pages 23 - 44)

Report attached.

8 WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT (Pages 45 - 52)

Report attached.

9 SERVICE REVIEW OF ACTUARY (Pages 53 - 58)

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 59 - 62)

To approve as correct the exempt minutes of the meeting held on 20 September 2016 and authorise the Chairman to sign them.

Andrew Beesley
Head of Democratic Services

**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3B - Town Hall
20 September 2016 (7.00 - 9.40 pm)**

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman), Dilip Patel (substitute for Jason Frost) and Melvin Wallace
Residents' Group	Nic Dodin and John Mylod (substitute for Stephanie Nunn)
East Havering Residents' Group	Clarence Barrett
UKIP Group	David Johnson (Vice-Chair)
Trade Union Observers:	John Giles

Apologies were received for the absence of Councillors Jason Frost and Stephanie Nunn), and Andy Hampshire and Heather Foster-Byron.

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

8 MINUTES OF THE MEETING

The minutes of the meeting of the Committee held on 14 June 2016 were agreed as a correct record and signed by the Chairman.

9 MATTERS ARISING

Further to minute no. 4 of 14 June 2016 officers had reviewed the recommendation that the Council do not apply the discretion to allow the award of a lump sum compensation payment of up to 104 weeks pay within six months of the termination date and where no additional benefits had been awarded under the LGPS.

Officers advised the Committee that in 1992 the Council had fixed their own cap on the level of compensation which could be awarded. Additionally the Government were planning to introduce a cap on the maximum level of compensation available on exit from employment.

In the circumstances officers would not be changing their decision.

10 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 2016

Officers advised the Committee that the net return on the Fund's investments for the quarter to 30 June 2016 was 4.5%. This matched the tactical benchmark and represented an under performance of -7.0% against the strategic benchmark.

The overall net return for the year to 30 June 2016 was 5.6%. This represented an under performance of -2.4% against the tactical combined benchmark and an under performance of -17.1% against the annual strategic benchmark.

At the close of business on 30 June 2016 the total combined value of the fund was £602.33m this represented an increase of £30.13m from the position at the close of business on 31 March 2016. Officers advised that as at the end of July 2016 the value of the fund stood at £624m.

Officers informed the Committee that they had met with a WM representative on 17 August 2016 who had given their annual presentation on the returns of the WM universe (other LGPS funds) and how the Havering Fund performed compared to the universe. The WM universe was made up of 88 funds with a combined asset value of £207bn. The benchmark for the universe was 0.2%. Havering Pension Fund had returned -1.0% (gross of fees), an underperformance against the universe benchmark of -1.2%.

The long term performance of the Fund's annual return against the retail price index showed that over 3, 5, 10 & 20 year periods the fund had outperformed inflation.

WM had made a 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 would also be discontinued. They would still continue to provide their core performance measurement to State Street clients who subscribe to their custody and/or accounting service.

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

Officers informed the Committee that the London CIV was leading on the issue of obtaining alternative service providers to produce the universe data.

The Committee had received an update from Hymans Robertson and presentations from Royal London their investment in UK Investment Grade Bonds and Ruffer on their absolute return portfolio.

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

11 **RESPONSIBLE INVESTMENT: MANAGER REVIEW**

In accordance with the Statement of Investment Principles Officers had asked the Fund's Investment Advisor (Hymans), to produce a summary report on the responsible investment activities of the Fund's Investment managers.

The Fund's current policy with regard to responsible investments was 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.'

Shareholder voting rights were typically only available to the Fund's investment managers that had equity holdings: this included 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 incorporated some level of equity investment.

Hymans report had indicated the voting strategy of the various investment managers, none of which raised concern for the Committee.

The Committee noted the report but asked officers to consider amending the wording of the 'Social, Environmental and Ethical Considerations by

removing the word 'expertise' in the third paragraph and replacing it with 'capacity'. The wording with regard to this issue would be reviewed when compiling production of the new Investment Strategy Statement.

12 **PENSION FUND ACCOUNTS 2015/16**

Officers had submitted the Havering Pension Fund unaudited accounts as at 31st March 2016 for consideration before they were submitted to the Audit Committee for sign off.

Key items to note from the statement were:

- The Net Assets of the Fund had decreased to **£573m** for 2015/16 from £575m in 2014/15, a net decrease of £2m.
- The net decrease of £2m comprised 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 would be included in the 2015/16 Pension Fund Annual Report. The statutory publication date for the 2015/16 Pension Fund Annual Report was 1 December 2016.

The Committee noted the report and had no issues of concern.

13 **PENSION FUND ANNUAL REPORT - YEAR ENDED 31 MARCH 2016**

Officers had prepared the Annual Report for the year ending 31 March 2016 in accordance with Regulation 57 of the Local Government Pension Scheme Regulations 2013, which applied for reporting periods beginning 1 April 2014. The authority must publish the pension fund annual report on or before 1 December following the year end.

The Regulations stated 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.

In preparing and publishing the pension fund annual report the authority must have regard to guidance given by the Secretary of State. On 18 August 2014 the Department of Communities and Local Government (DCLG) had issued a letter stating that authorities should use the guidance published by the Chartered Institute of Public Finance and Accountancy.

The pension fund annual report had been prepared in accordance with the guidance issued by the DCLG and with regard to the updated CIPFA/PRAG guidance issued in August 2014.

The Committee have:

- 1. Agreed the 2015/16 Pension Fund Annual report;
- 2. Agreed that the Pension Fund Annual Report should be published electronically; and
- 3. Authorised the Chairman and Chief Executive to conclude and sign so far as necessary, the annual report.

14 PUBLIC SERVICE PENSIONS ACT - SECTION 13 VALUATION

The Committee were informed that the Governments Actuary Department (GAD) had been appointed by the Department of Communities and Local Government (DCLG) to review 2013 valuations, as a 'dry run' to assess whether the aims of Section 13 of the Public Services Pensions Act 2013 were being met.

Section 13 (4) required GAD to report on whether four main aims had been achieved:

- a) **Compliance** – to confirm the fund's valuation had been carried out in accordance with the scheme regulations.
- b) **Consistency** – to confirm the fund's valuation was not inconsistent with other valuations..
- c) **Solvency** – to confirm employer contributions was set at an appropriate level to ensure the solvency of the pension fund, and
- d) **Long Term cost efficiency** – to confirm employer contributions were sufficient to meet benefit accrual and existing deficit.

Section 13 would apply for the first time to the 2016 round of fund valuations and the report was expected to be published in the summer of 2018.

The 'Dry Run' results summary for the LGPS was as follows:

- 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.

The 'Dry Run' results impact on the Havering Pension Fund was as follows:

- 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.
- b) The report stated that whilst poorly funded this was 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 intended to improve their funding position.
- c) The fund actuaries were in the process of preparing the 2016 valuations, when section 13 would be in force. Hymans would have consideration of the outcome of the dry run report as part of this process and officers and the Fund's Actuary would report back to the committee when the 2016 valuations results were finalised.

The report was noted.

15 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.

16 EXEMPT MINUTES OF THE MEETING

The exempt minutes of the meeting of the Committee held on 14 June 2016 were agreed as a correct record and signed by the Chairman.

17 HYMANS ROBERTSON REVIEW OF FUND PERFORMANCE FOR THE QUARTER ENDING 30 JUNE 2016

Hymans Robertson provided the Committee with an overview and update on the Pension Funds' performance in the quarter ending 30 June 2016. Details of the performance of the individual fund managers was highlighted.

The report was noted.

18 ROYAL LONDON ASSET MANAGEMENT PERFORMANCE REPORT

Representatives from Royal London Asset Management delivered a presentation on the performance of their mandate during the quarter ending 30 June 2016. The opportunity was also taken to inform the Committee of a new product they were launching in the New Year.

The presentation was noted.

19 RUFFER LLP, PERFORMANCE REPORT.

Representatives of Ruffer LLP delivered a presentation on their mandates performance up to 15 June 2016.

The presentation was noted.

20 THE ADMISSION OF SPORTS AND LEISURE MANAGEMENT LTD TO THE LONDON BOROUGH OF HAVERING PENSION FUND

The Committee was advised that Sports and Leisure Management Ltd (SLM) would be entering in to a new 'closed agreement' as an admitted body in the Havering Pension Fund.

The continued admission of Sports and Leisure Management Ltd in the London Borough of Havering Pension Fund as an admitted body enabling 51 members of SLM staff currently covered by the existing closed Admission Agreement and enable 2 members of Council staff transferring to SLM under TUPE arrangements to continue membership of the Local Government Pension Scheme (LGPS), was noted, subject to:

1. All parties signing up to a new Admission Agreement, and
2. An indemnity or Insurance bond in an approved form with an authorised insurer or relevant institution, being put in place to protect the pension fund.

Chairman

PENSIONS COMMITTEE 22 November 2016

Subject Heading:

**SERVICE REVIEW OF THE PENSION
FUND CUSTODIAN**

CMT Lead:

Andrew Blake Herbert

Report Author and contact details:

Debbie Ford
Pension Fund Accountant
01708432569
Debbie.ford@onesource.co.uk

Policy context:

Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer

Financial summary:

Estimated costs for the custodial services for the period 1 October 2015 to 30 September 2016 is £33,992

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

Havering will be clean and its environment will be cared for	<input type="checkbox"/>
People will be safe, in their homes and in the community	<input type="checkbox"/>
Residents will be proud to live in Havering	<input checked="" type="checkbox"/>

SUMMARY

This report reviews the performance of the Custodian, State Street, for the period October 15 to September 2016.

RECOMMENDATIONS

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

REPORT DETAIL

1. Background

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

2. Review of the Custodian's performance

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

- Safe Keeping and Custody
- Investment Accounting and Reporting.

• Safe Keeping and Custody

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

• Investment Accounting and Reporting

State Street produce accounting reports that are similar to those produced by the fund's investment managers. They keep a record of the book costs and the holdings in the various asset classes and also provide an independent market valuation of the fund. This is done for each of the investment managers' portfolio as well as at the total fund level. State Street records are therefore considered to be master records and these records are used for producing the accounts. Reports currently produced by State Street are in a format that can be used for us to comply with the International Financial Reporting Standards (IFRS).

- 2.2 Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer.
- 2.3 Officers met with the State Street on the 02 November 2016 where service performance was discussed and the outcomes of that review are set out in the table below:

CRITERIA	ASSESSMENT
What is important to the Authority	<p>It is important that the Pensions Committee and officers have confidence that all assets are secure and have been properly accounted for.</p> <p><i>Officers have confidence that the assets are secure and accounted for correctly as State Street produces quarterly reconciliations of valuations and holdings to fund manager records. Where differences occur outside the agreed tolerance levels explanations are provided.</i></p> <p>It is important that accurate accounting records are maintained and appropriate reconciliations are provided by the custodian to the fund's investment managers records.</p> <p><i>Officers have confidence that accurate accounting records are maintained. Officers run detailed reports from the custodian's website "mystatestreet" and these are reconciled to the summary level reports produced by State Street. This provides assurances and validates that the reports run from State Streets website are correct.</i></p> <p><i>State Street and officers also undertake quarterly reconciliations of the accounts in an IFRS format and this process is proving to be successful in that any errors can be identified early and can therefore assist the closedown process at year end. Whilst there have been a number of reconciliations issues of late officers are confident that these can be resolved with State Street.</i></p>
Safe keeping and custody	<p>This relates to the core functions of the custodian.</p>

CRITERIA	ASSESSMENT
	<i>Officers are appreciative of how this role is performed and believe that this is a high quality service. Officers also review reports by State Street auditors on their internal controls and key procedures. Officers are satisfied with the management responses to the exceptions raised in the report.</i>
Prompt and responsive service	<i>Receipt of invoices continues to be irregular and response times to queries on invoices could be improved. Bulk receipts of invoices impact on work planning so officers continue to raise this with State Street to determine how improvements can be made. Response times to queries on the accounts could be improved but officers will work with State Street to ensure improvements can be implemented.</i>
Support arrangements	<i>The support arrangements in place are good.</i>
Good communication	<i>Communications are good. Officers communicate frequently with State Street covering general day to day operations and State Street are always willing to have meetings where service delivery is discussed.</i>
Provision of data for the Office of National Statistics (ONS) Returns	<i>State Street can only deliver audited data following completion of reports at month end. ONS completion deadlines do not coincide with State Street's reporting timetable but officers work with the ONS to meet authorised extensions.</i>
Overall Summary	<i>Officers are satisfied with the performance of State Street with regard to Safe Keeping and Custody functions and would like to see improvements made for producing consistent accounting data.</i>

3. Conclusion

- 3.1 Officers are satisfied with the safe keeping and custody functions provided by State Street custodians.
- 3.2 Officers are pleased with the overall investment accounting and reporting functions but officers will work with State Street to ensure that improvements to the level of service with regard to the accounting and reporting functions are improved.

IMPLICATIONS AND RISKS

Financial implications and risks:

The costs cover transaction charges, administration costs and custody fees based on a pre-agreed unit price applied to the value of the individual fund's assets and each transaction.

Invoices have only been received up to the period covering Oct 15 to May 16, so the total costs at the time of writing this report for the period to May 16 is £25,892 (with £7,100 under query). Estimated costs from Jun 16 to September are £8,100.

Total estimated costs for the period Oct 15 to Sep 16 is £33,992 (Actual charge for Oct 14 to Sept 15 was £39,043).

The cost of the custodian services has reduced due to the fund's use of pooled funds and this consequently reduces the custody and transaction charges.

The custodian fees are met from the Pension Fund.

There is a risk that the Fund's value could be misstated if poor or incorrect data was provided by the custodian. This is mitigated by frequent reconciliations by the custodian to fund manager records and officer reconciliations.

Officers also carry out reviews of State Streets Internal Control reports issued by their external auditor. These reports detail tests undertaken by the auditors, testing their internal control environments and key procedures. No material internal control issues were reported.

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

Working papers held within Corporate Finance

PENSIONS COMMITTEE 22 November 2016

Subject Heading:

**INVESTMENT ADVISOR SERVICE
REVIEW and CONTRACT EXTENSION**

CMT Lead:

Andrew Blake Herbert

Report Author and contact details:

Debbie Ford
Pension Fund Accountant
01708432569
Debbie.ford@onesource.co.uk

Policy context:

In line with Myner's compliance statement
policy number 4 recommendation on
Performance measurement

Financial summary:

Investment Adviser fees and procurement
costs are met from 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	<input type="checkbox"/>
People will be safe, in their homes and in the community	<input type="checkbox"/>
Residents will be proud to live in Havering	<input checked="" type="checkbox"/>

SUMMARY

This report reviews the performance of the Investment Advisor, Hymans, covering the period September 2015 to September 2016.

This report also asks for the Committee to consider the option of extending the existing pensions advisor contract.

RECOMMENDATIONS

It is recommended that the Committee:

1. Notes the views of officers on the performance of the Investment Advisor and makes any comment on the report which it considers appropriate.
2. Approves a one year extension of the existing contract for the provision of Investment Advice with Hymans Robertson LLP for the period April 2017 to March 2018.

REPORT DETAIL

1. Background

- 1.1 Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2009 state that the Fund must obtain proper advice about its investments and in relation to the appointment of investment managers.
- 1.2 Myner's Principles number 2 on clear objectives recommends that the committee, in setting out its overall objective for the Fund, should take proper advice and appoint advisors in open competition.
- 1.3 Members have adopted the procedure to undertake an annual assessment of the Investment Adviser performance which is in line with Myner's Principle number 4 on performance measurement.
- 1.4 Hymans was appointed to provide Investment Advisory services to the Havering Pension Fund for the period commencing on the 1st April 2012. The contract is to run from 1st April 2012 until 31st March 2017 unless terminated or extended by the Council in accordance with the terms of the contract.
- 1.5 The contract can be extended for an additional period of up to two years with written consent of both parties, no later than three months before expiry.

2. REVIEW OF THE INVESTMENT ADVISER'S PERFORMANCE

- 2.1 Hymans has been the Fund's Advisor since April 2006. A change to the individual advisor who was assigned to the Havering Pension Fund took place shortly before the new contract was awarded and this arrangement has continued after the contract commenced.
- 2.2 The services provided by Hymans are generally in relation to the core service which includes production of quarterly monitoring performance reports, attendance at Pensions Committee and providing questions for officer meetings with fund managers, investment advice and performance monitoring of the fund's investment managers.
- 2.3 In addition to the above core services, Hymans carried out a due diligence review of the London CIV (Collective Investment Vehicle) prior to the initial transfer of assets to the London CIV and provided advice on the purchase of additional units in the Fund's property portfolio.
- 2.4 A set of criteria was defined as part of the investment advice tender specification and these are outlined below:
- Attendance at Committee Meetings
 - Investment Advice
 - Setting Investment Strategy
 - Investment Management structure
 - Appointing an investment Manager
 - Monitoring an investment Manager
 - Other responsibilities (advising on statement of investment principles, custody, setting investment guidelines etc.)
 - The value they will/could add to the decision making process
 - The level of Pro-Activity expected from the adviser
 - Support arrangements
- 2.5 In addition, included within the tender documentation officers selected other criteria which the Investment Advisor should be assessed against, as they are essential in a service such as investment advice, as:
- 2.6 Communications and advice are clear, timely, accurate, challenging and comprehensive
- 2.7 Provision of advice to officers and members include comprehensive options and is encouraged to test the alternatives to decisions being made
- 2.8 A partnership approach to reaching investment decisions

2.9 The Investment Advisor's performance has been reviewed using the above criteria and with consultation of the Pensions Committee; the results of the review of performance over the year of review are set out in the following table and have been discussed with the adviser:

CRITERIA	ASSESSMENT
Attendance at Pensions Committee Meetings	Investment Advisor has attended each Pension Committee as required.
Investment Advice :	<p>It is important that the Pensions Committee and officers receive expert advice on investment issues and how they affect the Local Government Pension Scheme.</p> <ul style="list-style-type: none">• Investment Strategy – Hymans produced advice on the purchase of additional units in the property fund which resulted in the additional units being purchased. Hymans also undertook a review of the London CIV documentation from an investment perspective and produced a note on the suitability and appropriateness of the proposed investment transfer into the London CIV. Investments were transferred.• Investment Management Structure – Hymans undertook a review of the current bond manager's benchmark and investment constraints which resulted in the portfolio being changed to reflect the outcome of the review.• Monitoring an investment manager - Every quarter the investment advisor produces a monitoring report which covers market analysis and the performance of the Investment Managers. Hymans attends the Pensions Committee meetings to discuss their report and have provided valuable advice and guidance at these meetings. The advisor also provides useful information and advice to officers and produces suggested questions for officers for meetings with investment managers.
The value they will/could add to the decision making process	The advisors are expected to add value through their input to the development of the Fund's investment strategy and in the selection of individual managers. The investment advisor has continued to include in their quarterly monitoring reports a more quantitative measure of recognising added value, by breaking down the overall return to show market and manager

CRITERIA	ASSESSMENT
	contributions separately.
The level of pro-activity expected from the Adviser	The investment advisor has taken an active role at pension committee meetings and on behalf of the committee does challenge the fund managers on their performance and strategies. Feedback from members would like to see more challenge being made to the Fund Managers
Support arrangements	The support arrangements in place are good.
Communications	The communication with the adviser is good. Reports are well structured and easy to understand.
Partnership Approach	The advisor has close working relationships to the Fund's actuary which helps the understanding of the implications of different strategies on the Fund.

3. Service Review Conclusion

Officers and the Pensions Committee are satisfied with the service provided by Hymans and have continued confidence in the advice being given.

4. Contract Extension/Re-Tendering

- 4.1 The current contract expires on the 31 March 2017 but can be extended for up to an additional period of two years with written consent of both parties, no later than three months before expiry. If no extensions are granted then a new contract needs to be in place from 1 April 2017.
- 4.2 The committee has the following options:
- Grant contract extensions for any period up to two years from 1 April 2017 on the existing contract.
 - Re-tender for a new contract to commence from the 1 April 2017.

5. Contract Extension options

- 5.1. The 1 April 2017 deadline conflicts with a number of external priorities (pooling, MiFIDII and new investment regulations) and therefore it is recommended that the **existing contract be initially extended for a period one year.**

- 5.2. Deferring the re-tendering exercise until March 2018 instead of April 2017 will give officers time to assess the impact on the types of advice that the Committee will need going forward given the future of pooling requirements.
- 5.3. In line with the new LGPS (Management and Investment of Funds) Regulations 2016 coming into force from 1 November 2016, the Pensions Committee together with officers and the investment advisor will need to formulate and publish a statement of its Investment strategy under the new regulations by no later than 1 April 2017. The investment advisor has developed a good understanding of the Committee's requirements and there are significant benefits to be had from service continuity at this time. This is also particularly important at a time when the Actuary will also be recommending that the Fund consider an alternative investment strategy as part of the 2016 valuation exercise.

6. Contract Re Tendering options

- 6.1. Tendering is a costly and time consuming process. The direct costs associated with re-tendering can be significant for major contracts which are subject to the **Procurement Directive 2014/24/EC for Public Contracts**. The alternative to undertaking a full procurement exercise would be to join a procurement framework. Some of the benefits of joining would be:
 - Significant reduction in procurement timescale from six-nine months to as little as 4-6 weeks
 - Reduced procurement costs – slashed by up to 90%
 - Flexibility in the planning and running of tender processes via mini-competition
 - Ceiling prices that can be further reduced by competition at call off.
- 6.2. There is currently a National LGPS Framework for Investment Consultancy Services which was launched at the end of April 2013 and will be available until April 2017. Contracts awarded under the framework may be for up to seven years, but cannot extend beyond 31 March 2021. If members wanted to join the current framework then the maximum length of a contract if commenced from April 2017 would cover a maximum of four years.
- 6.3. The National Framework are about to commence the process of appointing to a new investment consultancy contract and this is likely to be made available from April 2017. The contract will be for a period at least seven years and likely be broken up into separate lots to make the new contract more flexible and more future proof. If members extend the existing contract by one year as mentioned

above then this will give officers the time to consider the flexibility of the variety of lots on offer and assess whether there is merit and value for money in undertaking this process jointly with our oneSource partners.

IMPLICATIONS AND RISKS

Financial implications and risks:

The cost of Investment Advisory services from October 2015 to September 2016 was £32,755 (prior year £65,940). This includes costs of £28,255 (prior year £28,382) for the core services and £4,500 (prior year £37,558) for additional services. Costs for additional services have been kept within budget.

The current cost of joining the National Framework for Investment Consultancy is £5,000. This cost may change under the new contract which may be available from April 2017.

There are no financial implications or risks arising directly from this report. The costs of the Investment Advisor and any re-tendering costs are met from the Pension Fund.

Legal implications and risks:

As stated in the Report, the existing contract may be extended by written consent of both parties for a period of up to two years, provided notice is given at least three months before the expiry date, which means that there is sufficient time to extend. There are no apparent legal implications if the extension is granted as recommended.

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

Specification for the Advice to the London Borough of Havering Pension Fund

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PENSIONS COMMITTEE 22 November 2016

Subject Heading:

**REVIEW OF GOVERNANCE
COMPLIANCE STATEMENT**

CMT Lead:

Andrew Blake Herbert

Report Author and contact details:

Debbie Ford
Pension Fund Accountant
01708432569
Debbie.ford@onesource.co.uk

Policy context:

Regulation 55(2) of the LGPS Regulations 2013 requires an administrative authority to keep this document under review

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	<input type="checkbox"/>
People will be safe, in their homes and in the community	<input type="checkbox"/>
Residents will be proud to live in Havering	<input checked="" type="checkbox"/>

SUMMARY

In line with the Local Government Pensions Scheme Regulations (LGPS) 2013 as amended by LGPS (Governance) Regulations 2015 the London Borough of Havering, as an administering authority, has a duty to keep the Governance Compliance Statement under review and make revisions as appropriate.

Since the 1 April 2008 it has been a requirement for the administering authority to prepare and publish a report outlining the extent of compliance against a set of best practice principles published by the Department of Communities and Local Government (DCLG).

This report sets out the pension fund's draft Governance Compliance Statement for November 2016 and highlights where changes may be required.

RECOMMENDATIONS

That the committee:

Consider and agree any issues as needing to be amended in the Governance Compliance Statement (**Appendix A**).

REPORT DETAIL

1. Background

1.1 LGPS Regulations

The LGPS Regulations 2013 (Regulation 55) as amended by the LGPS (Governance) Regulations 2015 states that an Administering Authority must prepare a written statement setting out;

- 1) (a) Whether the authority delegates its functions to a committee or an officer of the authority;

(b) If the authority does so –
 - (i) the terms, structure and operational procedures of the delegation,
 - (ii) the frequency of any committee meetings,
 - (iii) whether such a committee includes representatives of scheme employers or members, and if so, whether those representatives have voting rights
(c) the extent to which a delegation, or in the absence of a delegation, complies with guidance given by the Secretary of State, and if it does not comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the establishment of a Local Pension Board.
- 2) An administering authority has a duty to keep the Governance Compliance Statement under review and make revisions as appropriate.
- 3) Before revising a statement an administering authority must consult such persons as it considers appropriate

- 4) The administering authority must publish its statement and any revised statement.

1.2 LGPS Regulations 2013 - Local Pension Boards: establishment, Regulation 106.

- 106** (1) Each administering authority shall no later than 1st April 2015 establish a pension board (“a local pension board”) responsible for assisting it—
- (a) to secure compliance with:
 - (i) these Regulations,
 - (ii) any other legislation relating to the governance and administration of the Scheme and any connected scheme (a), and
 - (iii) any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme; and
 - (b) to ensure the effective and efficient governance and administration of the Scheme and any connected scheme

The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

2) Governance Compliance Statement (Appendix A)

The Governance Compliance Statement as set out in **Appendix A** has been prepared and revised in line with the best practice principles published by the DCLG in 2008 and includes a compliance table which shows how the pension fund is compliant against best practice standards and if it does not, state the reasons for not complying.

In line with regulations, before revising this statement an administering authority must consult. In this instance no consultation was carried out as the only amendment made to the Compliance Statement was to reflect the change in the Pensions Committee membership and it was considered that there were no persons it was appropriate to consult for such a minor change.

3) Key points for the committee to consider:

- a) **Appendix A** sets out the authority’s position on compliance against the set of best practice principles.

Listed below is the area where the authority is currently not fully compliant. **It should be noted that the authority does not have to be fully compliant but where it is not the authority has to state why.**

- i) **Principle B Representation Item (a) (iii)** – To meet the required standards all stakeholders are afforded the opportunity to be represented by, where appropriate, appointing independent observers.

Members have previously considered whether or not to employ the services of an independent professional observer to participate in the governance arrangements and decided against it on the basis that the current monitoring arrangements are sufficient for the size of the fund.

- ii) **Other changes – please refer to Appendix A, section 2.** Changes reflect amendments made to new committee members.
 - iii) **Investment Pooling Governance Principles –** In October 2016 AON Hewitt with support from CIPFA developed guidance to support the LGPS in demonstrating best practice governance during the implementation of, and when participating in, LGPS asset pooling arrangements. The guidance suggests reviewing the wording of the Local Authority's constitution and/or the Terms of Reference for the Pensions Committee to consider whether they may need to be refined to adapt with the new investment pooling arrangements. Legal Services are currently reviewing the wording and if any changes are required then these will need to go via Governance Committee for approval before adoption. Any changes required will be reflected at the next review of the Governance compliance statement.
- b) The compliance statement will be amended if necessary after the committee meeting and will be published on the Council's website. This updated version will also be included in the 2016/17 Pension Fund Annual Report.

IMPLICATIONS AND RISKS

Financial implications and risks:

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

However, the expenses of a Local Pension Board, mentioned in section 1, paragraph 1.2 are included as part of the administration costs for the relevant LGPS fund. This means that the administering authority will be able to require employers to contribute to those expenses under existing LGPS regulations.

The impact of meeting the above costs is likely to impact the employer contributions in future valuations.

Legal implications and risks:

The relevant legislation is set out in the main report.

The departures from guidance have been explained and are set out at paragraph 3 and therefore there is minimal legal risk in leaving the statement intact in that respect, although it is open to the Pensions Committee to suggest any changes if they think this is appropriate.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

In line with the Local Pensions Scheme Regulations (LGPS) 2013, Regulation 55(2), the Council is required to prepare and publish a report outlining the extent of compliance against a set of best practice principles published by DCLG. In the areas in which the Council has not met best practice, as outlined in section 3, there are no equality implications or risks for staff or local residents.

BACKGROUND PAPERS

Background Papers List
LGPS Regulations

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

PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

Contents

Structure and Role of Members	3 - 4
Membership and Representation	4 - 5
Guidance and Monitoring	5 - 6
Reimbursement	6
Training	6
Meetings	7
Scope	7
Access and Publication	8
Reviewing and Updating	8
Compliance Table	9
• Principle A Structure	9
• Principle B Committee Membership and Representation	10
• Principle C Selection and role of lay members	11
• Principle D Voting	11
• Principle E Training/Facility time/Expenses	11 - 12
• Principle F Meetings (frequency/quorum)	13
• Principle G Access	14
• Principle H Scope	14
• Principle I Publicity	14

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

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 Deputy Chief Executive 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;

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

- 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 Jason Frost	Stephanie Nunn Nic Dodin	Clarence Barrett	David Johnson (Vice-Chair)

*From May 2016:

Cllr Jason Frost replaced Cllr Roger Westwood May 14 – May 16 – Conservative group

Cllr Nic Dodin replaced Cllr Ray Morgon (May 15 – May 16) – 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

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

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 Chief Executive, OneSource Shared Support Service. 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.

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

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 per scheduled meeting attended, at the same rate paid to co-opted members' for other committees. 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

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

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

7.1 Pensions Committee

The Pension Committee meets five times a year and occasionally holds extra meetings if required. Three Members constitute a quorum.

7.2 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.

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

- 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 Secretary of State.

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
<div>Page 38</div> <div>A.</div>	<p><u>Structure</u></p> <p>a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p>	<p>Full compliance. Duties and terms of reference are laid out in the 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 Chief Executive and OneSource Shared Services. Select link to Havering Website to read the Council's constitution: Havering Constitution</p> <p>Section 1 the Governance Compliance Statement refers.</p>
	<p>b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the committee.</p>	<p>Full compliance. Admitted/Scheduled bodies may appoint one representative to attend the committee meetings. The staff Trade Unions may appoint two representatives to attend and speak at meetings. The Local Pension Board includes two employer representative and two scheme member representatives</p> <p>There is no secondary committee.</p> <p>Section 2 of the Governance Compliance Statement refers.</p>
	<p>c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p>	<p>No secondary committee or panel has been established.</p>
	<p>d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</p>	<p>No secondary committee or panel has been established.</p>

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
B	<u>Committee Membership and Representation</u>	
	<p>a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis) 	<p>i) Full compliance - A position has been established for Admitted/Scheduled bodies' representative to be a member of the 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.</p> <p>ii) Full compliance – via trade union representation</p> <p>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.</p> <p>iv) Full compliance – The Fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required.</p> <p>Sections 2 and 3 of the Governance Compliance Statement refers.</p>

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	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). Local Pension Board members will receive an allowance per scheduled meeting attended, at the same rate paid to co-opted members' for other committees. No

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
Page 41		<p>payment will be made for nonattendance.</p> <p>Reasonable travelling expenses for training will be reimbursed to Local Pension Board members.</p> <p>The Business Plan includes the policy on training. Sections 4 and 5 of the Governance Compliance Statement refer.</p>
	b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	<p>Full compliance. As above.</p>
	c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken	<p>Full compliance.</p> <p>As above. A joint training policy has been adopted by the Pensions Committee and the Local Pension Board and is included within 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.</p> <p>A training log is maintained and records attendance and training undertaken.</p> <p>Section 5 of the Governance Compliance Statement refers.</p>

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
F	<u>Meetings (frequency/quorum)</u> 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. Representatives also sit on the Local Pension Board. The current forums for which stakeholders interests can be represented are: <ul style="list-style-type: none"> • Through invitation to committee meeting • Written correspondence – employers are invited for comments via letters and email as part of any consultation process, including proposed policy changes. 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.

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

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

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PENSIONS COMMITTEE

22 November 2016

Subject Heading:	WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT
CMT Lead:	Andrew Blake Herbert
Report Author and contact details:	<i>Debbie Ford</i> <i>Pension Fund Accountant</i> <i>01708432569</i> Debbie.ford@onesource.co.uk
Policy context:	Pensions Act 2004
Financial summary:	None

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

Havering will be clean and its environment will be cared for	<input type="checkbox"/>
People will be safe, in their homes and in the community	<input type="checkbox"/>
Residents will be proud to live in Havering	<input checked="" type="checkbox"/>

SUMMARY

On the 6 April 2005 the whistle blowing requirements of the Pensions Act 2004 came into force. The basic requirement of this law was that nearly all persons who are involved with a pension scheme have a duty to report 'as soon as reasonably practicable' to the Pensions Regulator where they have 'reasonable cause to believe' that there has been a breach of law 'relevant to the administration of the scheme' which is 'likely to be of material significance to the Regulator'. The Pensions Regulator issued a Code of Practice (CP1) that set out guidance on how to comply.

The Code discusses each of these issues, in particular what the regulator sees as materially significant.

For administering authorities and employers, an initial requirement was to establish procedures to identify any breaches, and then evaluate and if appropriate report to the Regulator. These were put in place during 2005 and part of this procedure was to undertake an annual review. This represents the annual review for the year up to **30 September 2016**.

Since the requirement came into force on the 5 April 2005, no possible breaches have been reported to the Deputy Chief Executive Communities and Resources.

Consequently no reports have been made to the Regulator

RECOMMENDATIONS

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

REPORT DETAIL

1. On the 6 April 2005 the whistle blowing requirements of the Pensions Act 2004 came into force. The basic requirement of this law was that nearly all persons who are involved with a pension scheme have a duty to report 'as soon as reasonably practicable' to the Pensions Regulator where they have 'reasonable cause to believe' that there has been a breach of law 'relevant to the administration of the scheme' which is 'likely to be of material significance to the Regulator'.
2. The Act was updated in 2015 to include changes required under the Public Services Pensions Act 2013 in relation to the establishment of a pension board and states that the requirement to report now applies to:
 - a) a trustee or manager of an occupational pension scheme;
 - b) *a member of the pension board of a public service pension scheme;(new)*
 - c) a person who is otherwise involved in the administration of an occupational pension scheme;
 - d) a professional adviser in relation to such a scheme;
 - e) a person who is otherwise involved in advising the trustees or managers of an occupational pension scheme in relation to the scheme.
3. The Pensions Regulator issued a code of practice (CP1) that set out guidance on how to comply with the requirement to report breaches of the law.

4. The Pensions Regulator's objectives are to protect the benefits of pension scheme members and to promote the good administration of work-based pension schemes.
5. The Pensions Regulator Code of Practice provided the following guidance:

a) There is a requirement to report breaches

- Breaches of the law which affect pension schemes should be considered for reporting to the Pensions Regulator.
- The decision whether to report requires two key judgements:
 - i. Is there reasonable cause to believe there has been a breach of the law;
 - ii. If so, is the breach likely to be of material significance to the Pensions Regulator?
- Not every breach needs to be reported. The Pensions Regulator does not normally regard a breach as materially significant where the trustees or managers (or their advisers and service providers) take prompt and effective action to investigate and correct the breach and its causes, and, where appropriate, to notify any members whose benefits have been affected.

b) Likely to be of material significance to the Pensions Regulator'

The legal requirement is that breaches likely to be of material significance to the Pensions Regulator in carrying out any of its functions must be reported.

What makes the breach of material significance depends on:

- The cause of the breach
- The effect of the breach
- The reaction to the breach
- The wider implications of the breach

When reaching a decision whether to report, the reporter should consider these points together.

c) The reporting arrangements are that:

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

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

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

6. Actions to ensure compliance / reporting

a) The named officer for reporting issues to within Havering is currently the Chief Executive. Should he be notified of a breach he will set out a plan to:

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

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

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

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

e) *In relation to protecting members' benefits:*

- Substantially the right money is paid into the scheme at the right time;
Confirmed via external audit of accounts
- Assets are appropriately safeguarded;
Confirmed via external audit of the accounts and Pension Committee monitoring

- Payments out of the scheme are legitimate and timely;
Confirmed via external audit of the accounts
- The Fund is complying with any legal requirements on scheme funding which apply to the LGPS;
The Fund's Funding Strategy Statement is produced in conjunction the Fund's Actuary and any regulation changes are reviewed and implemented where required.
- The Administering Authority is properly considering the investment policy and investing in accordance with it;
Confirmed via work of Pensions Committee and the adoption of a Statutory Statement of Investment Principles.
- Contributions in respect of money purchase AVCs are correctly allocated and invested;
Confirmed via external audit of the accounts

f) In relation to promoting good administration:

- Schemes are administered properly and appropriate records maintained;
Confirmed via external audit of the accounts and triennial valuation data verifications
- Members receive accurate, clear and impartial information without delay.
Confirmed via methods as set out in the Fund's Communication Strategy.

g) In addition:

- A note has been included in the annual report provided to scheme members along with where to raise concerns.
- Fund Managers are requested to disclose any reportable governance issues as part of the Fund's monitoring process.
- Procedures are in place for staff within the Borough dealing with the pension fund (this would include Finance, Accounting, Payroll and HR staff as well as Pension Administration staff) covering what they should do if they become aware of a possible breach and also (in very broad terms) whether there are any areas of pensions law etc. they would be expected to know about in their particular role.
- All Fund employers have been notified of the whistleblowing requirements.
- There is a named officer to maintain record of all breaches, assessments and actions taken – the Chief Executive.

- Staff are reminded of the procedures
- 7. Should a breach occur the named officer will write to all Pensions Committee Members setting out action taken and do a full report at the next available Committee.
- 8. **There have been no reported breaches.**

IMPLICATIONS AND RISKS

Financial Implications and risks:

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

Legal Implications and risks:

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

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

There is no indication of any breach and therefore there appears to be no requirement to report any matters to the Pensions Regulator.

Human Resources Implications and risks:

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

Equalities implications and risks:

This report sets out the Whistle blowing requirements of the Pensions Act and the report highlights that there have been no identified breaches. This means that there are not any direct equality implications.

However, there could be future cases related to anyone connected with the running of the pension scheme where there is a dimension of discrimination or victimisation based upon protected characteristics. In these cases, reference should be made to the Council's wider Whistle Blowing and Confidential Reporting Policy in order to comply with the Equality Act 2010.

BACKGROUND PAPERS

Background Papers List

Pensions Regulator Code of Practice 01

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PENSIONS COMMITTEE

22 November 2016

Subject Heading:	REVIEW OF THE PENSION FUND ACTUARY SERVICES 1 OCTOBER 2015 – 30 SEPTEMBER 2016
CMT Lead:	Andrew Blake-Herbert
Report Author and contact details:	Tara Philpott 01708 432179 Tara.philpott@onesource.co.uk
Policy context:	A review of the performance of the services provided by the Actuary demonstrates compliance against Myners principles
Financial summary:	Actuarial costs are met from the Pension Fund or from scheme employers where rechargeable

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

Havering will be clean and its environment will be cared for	<input type="checkbox"/>
People will be safe, in their homes and in the community	<input type="checkbox"/>
Residents will be proud to live in Havering	<input checked="" type="checkbox"/>

SUMMARY

The report reviews the performance of the Actuary from the 1 October 2015 – 30 September 2016.

RECOMMENDATIONS

Members note the views of officers on the performance of the Actuary during the period 1 October 2015 to 30 September 2016.

REPORT DETAIL

1. The Havering Pension Fund joined the Croydon Framework in March 2015 to obtain Actuarial and Benefits Consulting Services. Hymans Robertson is the appointed Actuary under this framework agreement. The contract expires on 31 March 2018. Hyman's have been the Funds Actuary since April 2010 and no changes were made to the Hymans contacts as part of joining the Croydon framework but benefits from savings in procurement costs and fees.
2. The framework also addresses the issues of:
 - allowing authorities the opportunity to work together on a range of projects, sharing knowledge and costs to achieve common goals at a fraction of the costs that would otherwise be incurred and to focus;
 - meeting the governments encouragement for greater efficiencies in the administration of pensions and the Framework is designed to help meet those efficiencies together as part of the Croydon Framework.
3. The following criteria were used for the contract evaluation:
 - (a) Internal quality control procedures;
 - (b) Management processes that maintain the knowledge and expertise in depth to support the contract;
 - (c) Ability to work to tight deadlines; and
 - (d) Demonstrate long term commitment to Local Government.
4. The contract set out a detailed service specification for the Actuarial Valuation Service and other actuarial services required. Other actuarial services include:
 - (a) meeting the requirements of FRS 17/IAS19;
 - (b) admission of new bodies to the fund, including recommended employer contributions and bond assessments;
 - (c) providing actuarial factors to enable the calculation of early or ill health retirements; and
 - (d) advice and the provision of up-to-date information on topical issues.
5. The production of the triennial valuation is the key deliverable from the Actuary, together with regular funding updates and annual calculations required for the Council's statement of accounts under the Code of Practice on

Local Authority Accounting. The last valuation was 31 March 2016 and we await the results from the actuary which are due in December 2016.

6. The Actuary also provides advice regarding changes in legislation affecting the Pension Fund, reviews guidance, and provides scheduled and admitted body contribution rates and other calculations as required.
7. Since September 2015 the Actuary has undertaken the following:

2016 Formal Valuation

- Preparatory work for the 2016 valuation
- Preparation of letter outlining GAD section 13 valuations and what this means for the Fund
- Attendance at pre valuation meeting on 22 October 2015, including projected results for the valuation
- Provision of 2016 valuation guide
- Attendance at valuation meeting on 24 February 2016 to discuss possible contribution strategies for the Fund and to begin scoping an the ALM
- Continued liaison with GAD and software providers regarding the new universal data capture, including testing and feedback
- Attendance at meeting to discuss section 13 results on 26 July 2016
- Provision of salary growth analysis paper to evidence changes to the salary assumption
- Assistance with Whole Fund data cleansing including correcting software provider issues
- Whole Fund data reconciliation, calculations and initial results
- Asset liability modelling to assist setting the Council contribution rates and checking the investment strategy continues to underpin the contribution plan
- Attendance at meeting on 1 September 2016 to discuss initial results and asset liability modelling
- Further asset liability modelling of alternative scenarios
- Calculation of SAB standard funding ratio, including provision of actuarial certificate before the SAB deadline

Employers

- Final cessation valuations for Havering Citizens Advice Bureau and KGB Cleaners
- Indicative cessation valuation for Family Mosaic
- Advice on cessation valuation options for May Guerney
- Provision of bond and contribution rate assessments, including ill-health budgets, relating to Accent Catering and Breyers
- Provision of contribution rate assessments for academies, including ill-health budgets, relating to Brookside Infants, Ravensbourne and Benhurst

- Recommendations on contribution rate for Drapers Maylands
- Work over the period to complete the bulk transfer of Elutec to London Borough of Barking and Dagenham Pension Fund

Governance

- Advice regarding the register of members' interest
- Advice on service restructuring and governance compliance

Training

- Delivered staff training on outsourcing

Accounting

- Produced IAS19 and IAS26 disclosures for the London Borough of Havering and FRS17/102 disclosures for the Colleges and Academies;
- Produced the actuarial statement for the statement of accounts;

General

- Provision of newsletters and help with publications including:
 - High Earners tax newsletter
 - Review of Conflict of Interest policy
 - Regular legislative updates, 60 second Summaries, Briefing notes

8. Hymans has delivered a diverse range of advice and assistance to the Council over this period. They have also worked with the Council on a number of outsourced or potentially outsourced contracts. Service delivery response times remain excellent. All relevant services required during the period 1 October 2015 – 30 September 2016 were delivered in both a timely manner and to a good or excellent quality.

Hymans continually provides briefings on changes to legislation, government consultations and changes to taxation etc. These are viewed as excellent and give Council officers a steering on most issues arising. Through the Collaborative Officers Group (COG) meetings, many publications are drafted and offered to Administering Authorities to purchase and the cost is shared dependant on the number of administering authorities take up the offer.

9. In conclusion, officers are very satisfied with the service that Hymans Robertson is providing.

IMPLICATIONS AND RISKS

Financial implications and risks:

Fees are charged for the time spent on services, taking into consideration the complexity of the services provided:

The gross costs of the actuarial services were:

1 October 2015 to March 2016	£44,155
1 April 2016 to 30 September 2016	£81,370

Fees included actuarial work that was recharged to other employers within the fund, as follows:

1 October 2015 to March 2016	£24,943
1 April 2016 to 30 September 2016	£32,620

The total net costs of £67,962. (Prior year £47k) are met from the Pension Fund.

Legal implications and risks:

There are no apparent legal implications from noting the content of the Report.

Human Resources implications and risks:

None arising directly.

Equalities implications and risks:

None arising directly.

BACKGROUND PAPERS

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

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