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PENSIONS COMMITTEE AGENDA

7.00 pm	Thursday 15 June 2017	Committee Room 3A - Town Hall

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	Admitted/Scheduled Bodies Representative
(No Voting Rights) (2)	**(Voting Rights) (1)**
John Giles, (Unison) Andy Hampshire, GMB	TBC

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 - 106)

To approve as correct the minutes of the meetings held 14 March 2017 and 28 March 2017 and authorise the Chairman to sign them.

5 PERFORMANCE MONITORING REPORT TO END OF MARCH 2017 (Pages 107 - 122)

6 REVIEW OF PENSIONS ADMINISTRATION (Pages 123 - 144)

7 BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE COMMITTEE (Pages 145 - 178)

8 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.

9 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.

10 HYMANS PERFORMANCE REPORT (Pages 179 - 200)

11 FUND MANAGER PRESENTATION - GMO (Pages 201 - 236)

12 INDEPENDENT HEALTH CHECK - PRESENTATION (Pages 237 - 264)

13 REVIEW OF PENSIONS ADMINISTRATION SERVICE (Pages 265 - 272)

Andrew Beesley
Head of Democratic Services

MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Town Hall, Main Road, Romford
14 March 2017 (7.00 - 9.00 pm)

Present:

COUNCILLORS

Conservative Group	+Robby Misir, Jason Frost and Melvin Wallace
Residents' Group	Stephanie Nunn and Nic Dodin
East Havering Residents' Group	+Ron Ower
UKIP Group	David Johnson (Chairman)
Trade Union Observers:	John Giles and Andy Hampshire

Apologies were received for the absence of Councillors John Crowder and Clarence Barrett.

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

40 **MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 13 December 2016 and of the Special meeting held on 23 January 2017 were agreed as a correct record and signed by the Chairman.

41 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED DECEMBER 2016**

The Committee considered a report that provided an overview of the performance of the Havering Pension Fund investments for the quarterly period to 31 December 2016. The performance information was taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The Committee noted that the net return on the Fund's investments for the quarter to 31 December 2016 was 1.3%. It was noted that the performance matched the tactical benchmark and represented an outperformance of 7.0% against the strategic benchmark.

The overall net return of the Fund's investments for the year to 31 December 2016 was 14.5%. The return represented an outperformance of 1.7% against the tactical combined benchmark and under performance of -5.7% against the annual strategic benchmark. The annual strategic benchmark was a measure of the fund's performance against a target based upon gilts + 1.8% (the rate which was used in the valuation of the funds liabilities).

The report informed the Committee on the implications of the shortfall.

The Committee were advised that officers measured each fund managers' annual return for the new tactical combined benchmark and these results were detailed later in the report.

Following a brief discussion the Committee **agreed** the following recommendations:

1) Noted the summary of the performance of the Pension Fund within this report.
2) Considered the Hymans performance monitoring report and presentation attached to the report
3) Received a presentation from the Fund's Bonds Manager (Royal London) and the Fund's Property Manager (UBS).
4) Considered the quarterly reports provided by each investment manager.
5) Considered and noted any Corporate Governance issues arising from voting as detailed by each manager.
6) Considered any points arising from officer monitoring meetings (section 4 refers).
7) Noted the analysis of the cash balances (paragraphs 2.2 and 2.3 refers).

42 **2016/17 FUND EXTERNAL AUDIT PLAN - HAVERING PENSION FUND**

The Committee received details of the an Audit Plan as issued by Ernst & Young LLP for the work they plan to undertake for provision of an audit opinion on the pension fund accounts for the year ending 31 March 2017.

The report informed that Ernst and Young plan to provide an audit opinion on the financial statements of the Havering Pension Fund and give a true and fair view of the financial position. The plan would also include reviewing the Pension Fund's Annual Report.

It was expected that the audit of accounts would be completed by August and the final audit report presented to the Audit Committee and Pensions Committee at the September 2017 meetings.

The Committee **noted** the 2016/17 Audit Plan report and reported that they had no matters to report that they believed would influence the audit.

43 **LOCAL PENSIONS BOARD - ANNUAL REPORT 2015/16**

The Committee **noted** the first report of the Havering Local Pensions Board.

44 **EXCLUSION OF THE PUBLIC**

45 **EXEMPT MINUTES**

46 **HYMANS ROBERTSON REVIEW OF FUND PERFORMANCE FOR THE QUARTER ENDING DECEMBER 2016**

The Committee received an overview and update from Hymans Robertson on the Pension Funds' performance in the quarter ending 31 December 2016.
The Committee was informed of the factors affecting fund performance during the quarter, and other material issues.

Market Summary

The Global Equity markets saw growth over the quarter, after a subdued start, boosted by accommodative monetary policies. Both UK Gilt and US Treasury bond yields rose over the quarter leading to falls in government bond prices. However, Global credit markets outperformed government bonds as credit spreads narrowed. Overall it was a relatively strong quarter for the commercial property market, as capital values rose.

Fund Performance

The total value of the fund increased by c. £8m to £648.3m as at 31 December 2016. The total return on the Fund's assets over the quarter was 1.4%, slightly behind the asset benchmark return. Relative to the strategic benchmark, the Fund outperformed over the last quarter.

The Baillie Gifford Global Equity fund underperformed the broader market.

The Ruffer's Absolute Return fund and Baillie Gifford's DGF outperformed their benchmarks over the quarter, whilst the GMO Real Return fund underperformed.

The RLAM bond mandate delivered negative returns in absolute terms, but outperformed the broader market.

Investment manager changes

The majority of the Fund's remaining direct holdings in the Ruffer Absolute Return portfolio transferred into the London CIV during quarter 3, 2016, however, a small direct holding of c.£12k remained. It was expected to be transferred to the London CIV in due course. In addition, the report outlined that the Ruffer Absolute Return strategy, both Baillie Gifford strategies were accessed via the London CIV.

An improvement in the fund's manager's rating for the GMO Real Return fund following positive meetings with their investment team. It was noted that Hymans Robertson rated the fund a "Retain". The fund was previously downgraded to "On Watch" in May 2016 but Hymans Robertson continue to engage with and monitor the manager closely.

Asset Allocation

The Fund's strategic asset allocation was amended following the quarter end to reflect a reduction in the allocation to multi-asset mandates and an increase in equity allocation although, on a look through basis, the overall allocation to equities remained broadly unchanged at c44%

The Committee previously agreed to rebalance from bonds and cash in favour of property and Multi-Asset funds, with the associated transactions due to be completed in Q1 2017.

47 **ROYAL LONDON (BONDS) - PERFORMANCE REPORT**

Rob Nicholson, Client Relationship Director and Richard Nelson, Senior Credit Fund attended the meeting to update the Committee on the mandates performance.

The Committee noted that the objective of the portfolio was to outperform the composite benchmark by 1.25% per annum net of fees, measured over rolling 3 year periods.

In order to achieve this target the following funds were permitted for investment:

The following funds are permitted for investment:

- RL Sterling Extra Yield Bond Fund
- RL Duration Hedged Credit Fund
- RL Global High Yield Bond Fund
- RL Short Duration Global High Yield Bond Fund
- RL Short Duration Credit Fund
- RL Short Duration Gilt Fund

- RL Absolute Return Government Bond Fund

The Committee noted that the value of the funds had dropped as at 31 December 2016 to £138.40m from £143.54m in 30 September 2016m.
In conclusion the Committee was informed that the current global economic expansion would be sustained with the impact of the Brexit vote centred on the UK and eurozone economies; loose monetary policy, low historic bond yields and a low oil price would remain key supports.

Markets were likely to remain volatile as the full implications of Brexit remains unclear.

It was also indicated that corporate bond prices remains attractive; it was expected that the funds would outperform gilts over the next three years

The Government bond market also remains somewhat pessimistic about the prospects for global growth; it was expected that global bond yields to move gradually higher.

The Committee **thanked** the Royal London representatives for their presentation.

48 **UBS (PROPERTY) - PERFORMANCE REPORT**

Howard Meaney, Head of Real Estate UK & Senior Portfolio Manager and Jonathan Hollick Assistant Portfolio Manager, UBS Triton attended the meeting to advise the Committee on the fund's performance.

The pooled fund was valued at £783m with a net initial yield of 4.81%, with the Fund's investment being approximately about £33m.

The Committee noted that quarter 4 performance recorded a total return of 2.31%. The Fund had outperformed its benchmark over one, two and three-year periods as at quarter 4, 2016. This resulted in a 3.8% annual distribution yield.

The Committee was informed of the following key activities and transactions that indicated satisfaction with performance to date and the prospects for the future:

- Income focused, with forecast distribution yield of 4.7% in 12 months
- Dominant assets in growth locations with long-term embedded asset management potential
- Very high-quality and diversified investment portfolio with strong tenant and lease profiles
- Bias towards forecast growth sectors: industrial/logistics, retail warehousing and student accommodation
- Experienced and stable team

- Best-in-class corporate governance
- Leading "Green Star" fund in GRESB 2014, 2015 and 2016 real estate assessments

The Committee **thanked** UBS Triton representatives on the performance of the Real Estates and Private Markets.

Chairman

MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Council Chamber - Town Hall
28 March 2017 (7.00 - 7.40 pm)

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman), Melvin Wallace and Dilip Patel
Residents' Group	Nic Dodin
East Havering Residents' Group	Clarence Barrett
UKIP Group	David Johnson (Vice-Chair)

Admitted/Scheduled Bodies Representatives:

Trade Union Observers:

All decisions were taken with no votes against.

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

49 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

Apologies were received from Councillors Jason Frost and Stephanie Nunn together with John Giles and Andy Hampshire.

Councillor Ray Morgon attended as substitute for Cllr S Nunn and Councillor Dilip Patel attended as substitute for Cllr J Frost.

50 DECLARATIONS OF INTEREST

There were no declarations of interest.

51 FUNDING STRATEGY STATEMENT

Consideration was given to the report of Debbie Ford, Pension Fund Accountant, who detailed the salient aspects to the Committee.
Ms Ford indicated that the Funding Strategy Statement (FSS) was a statutory statement prepared in accordance with Regulation 58(4) Local

Government Pension Scheme Regulations 2013 as amended. It sets out the objectives of the Borough in its capacity as Administrative Authority, for the funding of the London Borough of Havering Pension Fund. The Statement applies to all employers participating in the Fund.
The statement attached at Appendix 1 of the agenda is the Draft Statement for agreement by the Committee which has been distributed for comment to all participating employers in the Fund. The closing date for the consultation was 10th February, 2017. No comments had been received from other employers in the fund.
The final statement will be published and will take effect as of 1st April, 2017, being the second version of the FSS since the implementation of the 2013 LGPS regulations.
The FSS has been produced in consultation with The Fund's actuary Hymans Robertson under the regulations and in accordance with the guidance published by CIPFA.
On agreement, the FSS will be updated and published on the Councils website. It will also be appended to the minutes of the meeting.

It was noted that all of the reports under discussion at the meeting were linked and that there were no significant changes in the FSS other than formatting which is slightly changed in accordance with the revised guidance.

The Pensions Committee:

Agreed the Funding Strategy Statement.

52 **2016 ACTUARIAL VALUATION DRAFT REPORT**

Debbie Ford presented the 2016 Actuarial Valuation Draft Report to the Pensions Committee. This had been prepared by the Fund's actuary in accordance with Regulation 62 of the Local Government Pension Scheme Regulations, 2013 using the data supplied with assumptions applied and rates set as a result.
The report details the assumptions which had been agreed by the Council's s151 Officer at the time, Andrew Blake-Herbert.
The report sets out the actuarial valuation of the assets and liabilities of the Pension Fund as of 31st March, 2017.
This report is a statutory report which must be published by 31st March, 2017, before which the actuaries will sign off the document.
The funding level of the Fund has improved since the last valuation in 2013 which was then at 61% but is now at 67%. Contributions are collected from employers at 22% via payroll.
It was noted that salary growth is currently restricted but salary increases have been projected over a 20 year period which also takes account of scale increases which continue to be applied even in the absence of pay increases. The projection amounts to 2.4% over the twenty year period. Scale increases are at present automatic but under the new terms and conditions these will be based on developmental and performance related progression.

The Pension Committee:

Noted the DRAFT 2016 Actuarial Valuation Report presented at Appendix A of the agenda.

The final report will be attached to the minutes of the meeting.

53 **INVESTMENT STRATEGY STATEMENT**

The Committee gave consideration to the report of Debbie Ford and the Draft Investment Strategy Statement (ISS). This Statement is required by regulations and requires an administering authority, after taking proper advice, to formulate an ISS which must be produced in accordance with guidance issued by the Secretary of State.
The ISS at Appendix 1 of the report sets out the London Borough of Havering's policies, in its capacity as Administering Authority, for the investments of the Borough's Pension Fund.
The authority will publish the final ISS no later than 1st April, 2017. This will be the first ISS published under the new regulations. It sets out how investments will be made and assumes 4% growth.

It was noted that the ISS must include certain information as set out at paragraph 1.7 of the report. In line with regulations, the authority must consult on the content of the Investment Strategy. The draft ISS was distributed to all employers, the actuary, the Local Pension Board and Fund Managers in accordance with these regulations. No comments were received from the consultees.

The Committee noted the statement of compliance which demonstrates the Fund's performance against the six Myners principles. The principles were reviewed in accordance with the CIPFA guidance to show that the Fund is compliant but needs to consider further, Principle 5 - Responsible Ownership.
That is *"Administering Authorities should recognise and ensure that their partners in the investment chain adopt the FRC's UK Stewardship Code."*

It was indicated by Ms Ford that most investment decisions are now delegated to the Fund Manager and the authority are encouraged to sign up to the code and be more collaborative in approach.

The Pension Committee will be asked in the future to consider their membership of the Local Authority Pension Fund Forum (LAPFF) and the Pensions and Lifetime Savings Association (PSLA). The LAPFF have indicated that a representative would be able to attend and deliver a presentation at a future Committee meeting. Members believed that would be helpful and look forward to receiving the report at the next meeting.

The Committee noted that the Fund has joined the London CIV with approximately 40% of the fund invested. At present the CIV are not able to offer an infrastructure product but members are free to invest as they wish. Further focus is on bonds which will be considered in detail by the Bond Manager. Any further matters will be brought back to Committee for decision. The Global Equity Sub Fund has been developed which may become a future option. Some money is held by managers which allows for investment as and when productive offers and schemes come up.

The Pension Committee:

- **Adopted** the proposed Investment Strategy Statement as set out at Appendix A.
- **Agreed** the administrative Authority's position in respect of reporting compliance against the Myners investment principles as set out in Appendix D; and

- **Agreed** to receive a further report and consider whether it is interested in becoming members of LAPFF and PLSA.

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Chairman

HYMANS ROBERTSON

London Borough of Havering Pension Fund

Funding Strategy Statement

March 2017

PUBLIC SECTOR

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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 2017.

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 B.

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 also, 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 A.

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 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 policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (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 or 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;
- 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 (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. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

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@oneSource.co.uk or on telephone number 01708 432 569.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has a predetermined minimum probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon") while making allowances for the stability of employer contribution rates. The Secondary rate may be expressed as a percentage of pay or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 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 (or Multi Academy Trusts)**, 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 town and parish councils 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. Please note, this does not apply to Higher and Further Education bodies.

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, 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. Please note, the terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

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.

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 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 (see Appendix D, section D5, for further details of how this is calculated), 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 surplus is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

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 at a reasonable cost.

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. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- 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 Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options 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, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

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, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?

2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.

3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

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 lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. 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 pace of paying contributions;
- 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 may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, 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 Authorities**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**Open to New Entrants**	**Closed to New Entrants**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)	
Primary rate approach	(see Appendix D – D.2)						
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No	
Maximum time horizon – Note (c)	20 years	20 years	20 years	Future working lifetime subject to a maximum of 15 years		Outstanding contract term subject to a maximum of 15 years	
Secondary rate – Note (d)	Monetary Amount or percentage of pay as appropriate						
Treatment of surplus	Covered by stabilisation arrangement	Contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority				Reduce contributions by spreading the surplus over the remaining contract term	
Probability of achieving target – Note (e)	60%	75%	75%	75%		75%	
Phasing of contribution changes	Covered by stabilisation arrangement	3 years, subject to the Administering Authority being satisfied as to the strength of the employer's covenant.				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 ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.	

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 set a higher funding target (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; 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), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 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 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 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 time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll),
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

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, or failure to pay contributions or 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 conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. 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;

ii. 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;

iii. 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;

iv. 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;

v. 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, policy iii 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.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will normally be reassessed on a triennial basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (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.

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.

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 does not 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; and
- 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:

- Last active member ceasing participation in the Fund (please note, recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- 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 non-Transferee 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 ongoing 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) 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 ongoing 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.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, 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.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread they payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

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 ongoing 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, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. The current pools in place within the Fund are as follows:

- smaller CABs (as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service);
- Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools; and
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

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 time horizon, 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, or 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). 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. Additional contributions (strain) costs are payable immediately.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Employers will usually have an 'ill health allowance'. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirements over any intervaluation period 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 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external 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 or 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 two 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.

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 ongoing 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
- 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 Fund 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 Investment Strategy Statement, 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 as part of each actuarial valuation, and is kept under review 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 Appendix E3) 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 Appendix A1).

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, to help 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 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the investment performance quarterly and reports this to the regular Pensions Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund 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

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;

3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustments certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 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 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

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.

A2 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 20 December 2016;

b) Comments were requested within 30 days;

c) Following the end of the consultation period the FSS was updated where required and then published, on 30 March 2017.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at https://www.havering.gov.uk/info/20044/council_information/222/pension_fund and http://www.yourpension.org.uk/handr/Havering-Publications/Havering-Fund-Members.aspx
- Copies sent to investment managers and independent advisers; and
- Copies made available on request.

A4 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 2019.

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,
- 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.

A5 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 Investment Strategy Statement, 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 can be found on the web at https://www.havering.gov.uk/info/20044/council_information/222/pension_fund and http://www.yourpension.org.uk/handr/Havering-Publications/Havering-Fund-Members.aspx

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and an ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. 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;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. 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);

4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. 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;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. 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;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

financial;

demographic;

regulatory; and

governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns 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 four key outcomes. Chosen option considered to provide the best balance.
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.
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	Summary of Control Mechanisms
	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.
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.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking 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	In many cases this may not be sufficient cause for

Risk	Summary of Control Mechanisms
recovery payments	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 were 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.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

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 between triennial valuations Deficit contributions may be expressed as monetary amounts.
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 with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
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 to have a guarantor. Reviewing bond or guarantor arrangements at regular

Risk	Summary of Control Mechanisms
	intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – 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.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 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 ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary 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 Primary 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 Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. 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 ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below);
2. within the determined time horizon (see 3.3 Note (c) for further details);
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details); and
4. allowing for any adjustments that may be required to keep contributions as stable as possible.

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);

3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 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".

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 ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year; and
2. 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 but not to audit standard. 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 E – Actuarial assumptions

E1 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 funding target. 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 funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing 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.

E3 What assumptions are made in the ongoing 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 2016 and setting contribution rates effective from 1 April 2017, 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 2013 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 2020. 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, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. retail prices index (RPI) per annum thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI per annum. The change has led to a reduction in the funding target (all other things being equal).

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. 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 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

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 ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

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 most employers, in deriving the funding target underpinning the Primary and Secondary rates: 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 F – Glossary

Actuarial assumptions/basis
The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target 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 where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).

Bond Indemnity
To cover early termination of a contract due to, but not limited to,

- 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 ongoing 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.

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.

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.

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 **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and**

Secondary rates.

Employer — An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.

Funding target — 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**.

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.

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.

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).

Pass-through — A risk sharing agreement between the letting employer and the contractor.

Primary contribution rate — The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.

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).

Secondary contribution rate — The difference between the employer's actual and **Primary contribution rates**. See Appendix D for further details.

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.

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 2016), 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.

London Borough of Havering Pension Fund

2016 Actuarial Valuation
Final Valuation Report

March 2017

Steven Law
Barry McKay

Fellows of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP

Hymans Robertson LLP has carried out an actuarial valuation of the London Borough of Havering Pension Fund (“the Fund”) as at 31 March 2016, details of which are set out in this report (“the Report”), which is addressed to the Administering Authority of the Fund, the London Borough of Havering (“our Client”). The Report was prepared for the sole use and benefit of our Client and not for any other party; and Hymans Robertson LLP makes no representation or warranties to any third party as to the accuracy or completeness of the Report.

The Report was not prepared for any third party and it will not address the particular interests or concerns of any such third party. The Report is intended to advise our Client on the past service funding position of the Fund as at 31 March 2016 and employer contribution rates from 1 April 2017, and should not be considered a substitute for specific advice in relation to other individual circumstances.

As the Report has not been prepared for a third party, no reliance by any party will be placed on the Report. It follows that there is no duty or liability by Hymans Robertson LLP (or its members, partners, officers, employees and agents) to any party other than our Client. Hymans Robertson LLP therefore disclaims all liability and responsibility arising from any reliance on or use of the Report by any person having access to the Report or by anyone who may be informed of the contents of the Report.

The Report must not be used for any commercial purposes unless Hymans Robertson LLP agrees in advance.

Contents

Executive summary

We have carried out an actuarial valuation of the London Borough of Havering Pension Fund (‘the Fund’) as at 31 March 2016. The results are presented in this report and are briefly summarised below.

Funding position

The table below summarises the funding position of the Fund as at 31 March 2016 in respect of benefits earned by members up to this date (along with a comparison at the last formal valuation at 31 March 2013).

Past Service Position	31 March 2013 (£m)	31 March 2016 (£m)
Past Service Liabilities	752	857
Market Value of Assets	461	573
Surplus / (Deficit)	(292)	(284)
Funding Level	**61%**	**67%**

The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance over the inter-valuation period. The liabilities have also increased due to a reduction in future expected investment returns, although this has been partially been offset by lower than expected pay and benefit growth.

Contribution rates

The table below summarises the Whole Fund Primary and Secondary Rates at this triennial valuation. The Primary Rate is the payroll weighted average of the underlying individual employer Primary Rates and the Secondary Rate is the total of the underlying individual employer Secondary Rates (before any pre-payment or capitalisation of future contributions), calculated in accordance with the Regulations and CIPFA guidance.

Primary rate	Secondary Rate		
1 April 2017 - 31 March 2020	2017/18	2018/19	2019/20
18.2% of pensionable pay	£8,985,000	£10,469,000	£11,952,000

The rates above include an allowance for administration expenses of 0.8% of pay.

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.

Broadly, contributions required to be made by employers in respect of new benefits earned by members (the Primary Rate) have increased as future expected investment returns have fallen. Changes to employer contributions targeted to fund the deficit have been variable across employers.

The minimum contributions to be paid by each employer from 1 April 2017 to 31 March 2020 are shown in the Rates and Adjustments Certificate in **Appendix H**.

1 Introduction

We have carried out an actuarial valuation of the London Borough of Havering Pension Fund ("the Fund") as at 31 March 2016 under Regulation 62 of The Local Government Pension Scheme Regulations 2013 ("the Regulations"). The purpose of the valuation is to assess the value of the assets and liabilities of the Fund as at 31 March 2016 and to calculate the required rate of employers' contributions payable to the Fund for the period from 1 April 2017 to 31 March 2020.

Valuation Report

This report records the high level outcomes of the actuarial valuation as at 31 March 2016. The valuation report is prepared by the actuaries to the Fund and is addressed to London Borough of Havering as the Administering Authority to the Fund.

Component reports

This document is part of an "aggregate" report, i.e. it is the culmination of various "component" reports and discussions, in particular:

- Correspondence relating to data including the Data Report;
- The Initial Results report (dated 31 August 2016) which outlined the whole fund results;
- The formal agreement by the Administering Authority of the actuarial assumptions used in this document, on 7 March 2017;
- The contribution modelling carried out for employers, as detailed in our report and presentation to the Administering Authority on 13 December 2016;
- The Funding Strategy Statement, confirming the different contribution rate setting approaches for different types of employer; and
- The initial results schedules for individual employers in the Fund.

2 Valuation Approach

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

It is important to realise that the actual cost of members' benefits is unknown. This cost will not be known with certainty until the last benefit is paid to the last pensioner. The purpose of this valuation is to estimate what this cost will be, so that the Fund can then develop a funding strategy to meet it.

Setting the funding strategy for an open defined benefit pension fund such as the London Borough of Havering Pension Fund is complex. Firstly, the time period is very long; benefits earned in the LGPS today will be paid out over a period of the next 80 years or more and it remains open to new joiners and accrual of benefits. Secondly, the LGPS remains a defined benefit scheme so there are significant uncertainties in the final cost of the benefits to be paid. Finally, in order to reduce employer costs, the Fund has a return seeking investment strategy which can result in high levels of asset volatility.

Such a valuation can only ever be an estimate – as the future cannot be predicted with certainty. However, as actuaries, we can use our understanding of the Fund and the factors that affect it to set the pace of funding in conjunction with the Administering Authority. The pace of this funding can vary according to the level of prudence that is built into the valuation method and assumptions.

The valuation approach adopted recognises the uncertainties and risks posed to funding by the factors discussed above and follows the process outlined below.

Step 1: The Fund sets a funding target (or funding basis) which defines the target amount of assets to be held to meet the future cashflows. The assumptions underlying the funding target are discussed further in the next section. A measurement is made at the valuation date to compare the assets held with the funding target.

Step 2: The Fund sets the time horizon over which the funding target is to be reached.

Step 3: The Fund sets contributions that give a sufficiently high likelihood of meeting the funding target over the set time horizon. More detail on this risk based approach to setting contribution rates can be found in **Appendix C**.

For this valuation, as for the previous valuation, our calculations identify separately the expected cost of members' benefits in respect of scheme membership completed before the valuation date ("past service") and that which is expected to be completed after the valuation date ("future service").

Past service

The principal measurement here is the comparison of the funding position at the valuation date against the funding target. The market value of the Fund's assets as at the valuation date are compared against the value placed on the Fund's liabilities in today's terms (calculated using a market-based approach). By maintaining a link to the market in both cases, this helps ensure that the assets and liabilities are valued in a consistent manner. Our calculation of the Fund's liabilities also explicitly allows for expected future pay and pension increases. The assumptions used in the assessment of the funding position at the valuation date are detailed in the next section.

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date against the funding target.

Funding plans are set to target a fully funded position over the set time horizon and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund; these contributions are included in each employer's "Secondary Rate".

Future service

In addition to benefits that have already been earned by members prior to the valuation date, employee members will continue to earn new benefits in the future. The cost of these new benefits must be met by both employers and employees. The employers' share of this cost is known as the "Primary Rate".

The Primary Rates for employers are determined with the aim of meeting the funding target in respect of these new benefits at the end of the set time horizon with an appropriate likelihood of success. The Primary Rate will depend on the profile of the membership (amongst other factors). For example, the rate is higher for older members as there is less time to earn investment returns before the member's pension comes into payment.

The methodology for calculating the Primary Rate will also depend on whether an employer is open or closed to new entrants. A closed employer will have a higher rate as we must allow for the consequent gradual ageing of the workforce.

For the reasons outlined above regarding the uncertainty of the future, there is no guarantee that the amount paid for the Primary Rate will be sufficient to meet the cost of the benefits that accrue. Similarly, there is no guarantee that the Secondary Rates will result in a 100% funding level at the end of each employers' respective time horizon. Further discussion of this uncertainty is set out in **Appendix C**.

3 Assumptions

Due to the long term nature of the Fund, assumptions about the future are required to place a value on the benefits earned to date (past service) and the cost of benefits that will be earned in the future (future service).

Broadly speaking, our assumptions fall into two categories when projecting and placing a value on the future benefit payments and accrual – financial and demographic.

Financial assumptions typically try to anticipate the **size** of these benefits. For example, what members' final salaries will be at retirement and how their pension will increase over time. In addition, the financial assumptions also help us to estimate how much all these benefits will cost the Fund in today's money by making an assumption about future anticipated returns on the Fund's investments.

Demographic assumptions typically try to forecast **when** benefits will come into payment and what form these will take. For example, when members will retire (e.g. at their normal retirement age or earlier), how long they will then survive and whether a dependant's pension will be paid. In this valuation of the Fund, we use a single agreed set of demographic assumptions which is set out below and in more detail in **Appendix E**.

For measuring the funding position, the liabilities of the Fund are reported on a single constant set of financial assumptions about the future, based on financial market data as at 31 March 2016.

However, when we assess the required employer contributions, we use a model that calculates the contributions required under 5,000 different possible future economic scenarios. Under these 5,000 different economic scenarios, key financial assumptions about pension increases and Fund investment returns vary across a wide range. More information about these types of assumptions is set out in **Appendix F**.

Financial assumptions

Discount rate

In order to place a current value on the future benefit payments from the Fund, an assumption about future investment returns is required to "discount" future benefit payments back to the valuation date. In setting the discount rate the Fund is determining the extent to which it relies on future investment returns required to meet benefit payments in excess of the monies already held at the valuation date.

For a funding valuation such as this, the discount rate is required by the Regulations to incorporate a degree of prudence. The discount rate is therefore set by taking into account the Fund's current and expected future investment strategy and, in particular, how this strategy is expected to outperform the returns from Government bonds over the long term. The additional margin for returns in excess of that available on Government bonds is called the Asset Outperformance Assumption (AOA).

The selection of an appropriate AOA is a matter of judgement and the degree of risk inherent in the Fund's investment strategy should always be considered as fully as possible.

There has been a downward shift in the expected returns on many asset classes held by the Fund since the 2013 valuation. The Fund is satisfied that an AOA of 1.8% p.a. is a prudent assumption for the purposes of this valuation.

Price inflation / pension increases

Pension (both in payment and deferment) benefit increases and the revaluation of career-average earnings are in line with Consumer Price Inflation (CPI). As there continues to be no suitable market for CPI linked financial instruments, the Fund derives the expected level of future CPI with reference to Retail Prices Inflation (RPI).

Due to further analysis of CPI since 2013, the Fund expects the average long term difference between RPI and CPI to be 1.0% p.a. compared with 0.8% p.a. at the 2013 valuation.

At the previous valuation, the assumption for RPI was derived from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, the Fund continues to adopt a similar approach.

Salary increases

Due to the change to a CARE scheme from 2014, there is now a closed group of membership in the Fund with benefits linked to final salary. The run-off of this final salary linked liability was modelled, taking into account the short-term restrictions in public sector pay growth.

The results of this modelling and analysis were reported in the "2016 valuation pay growth assumption" document dated 10 March 2016. Based on the results of this modelling the Fund set a salary growth assumption of RPI – 0.7%. This reflects both short term pay constraints and the belief that general economic growth and hence pay growth may be at a lower level than historically experienced for a prolonged period of time.

Note that this assumption is made in respect of the general level of salary increases (e.g. as a result of inflation and other macroeconomic factors). We also make a separate allowance for expected pay rises granted in the future as a result of promotion. This assumption takes the form of a set of tables which model the expected promotional pay awards based on each member's age and class. Please see **Appendix E**.

A summary of the financial assumptions underpinning the target funding basis and adopted during the assessment of the liabilities of the Fund as at 31 March 2016 (alongside those adopted at the last valuation for comparison) are shown below.

Financial assumptions	31 March 2013	31 March 2016
Discount rate		
Return on long-dated gilts	3.0%	2.2%
Asset Outperformance Assumption	1.8%*	1.8%**
Discount rate	**4.8%**	**4.0%**
Benefit increases		
Retail Prices Inflation (RPI)	3.3%	3.2%
Assumed RPI/CPI gap	(0.8%)*	(1.0%)**
Benefit increase assumption (CPI)	**2.5%**	**2.1%**
Salary increases		
Retail Prices Inflation (RPI)	3.3%	3.2%
Increases in excess of RPI	0.0%*	(0.7%)**
Salary increase assumption	**3.3%**	**2.4%**

**Arithmetic addition*

***Geometric addition*

Demographic assumptions

Longevity

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. For this valuation, the Fund has adopted assumptions which give the following sample average future life expectancies for members:

	31 March 2013	31 March 2016
Male		
Pensioners	22.1 years	22.0 years
Non-pensioners	24.2 years	23.9 years
Female		
Pensioners	24.1 years	24.2 years
Non-pensioners	26.7 years	26.3 years

Further details of the longevity assumptions adopted for this valuation can be found in **Appendix E**. Note that the figures above for actives and deferreds assume that they are aged 45 at the valuation date.

Other demographic assumptions

We are in the unique position of having a very large local authority data set from which to derive our other demographic assumptions. We have analysed the trends and patterns that are present in the membership of local authority funds and tailored our demographic assumptions to reflect LGPS experience.

Details of the other demographic assumptions adopted by the Fund are set out in **Appendix E**.

Further comments on the assumptions

As required for Local Government Pension Scheme valuations, our approach to this valuation must include a degree of prudence. This has been achieved by explicitly allowing for a margin of prudence in the AOA.

For the avoidance of doubt, we believe that all other proposed assumptions represent the "best estimate" of future experience. This effectively means that there is a 50% chance that future experience will be better or worse than the chosen assumption.

Taken as a whole, we believe that our proposed assumptions are more prudent than the best estimate.

The actuarial assumptions underlying the Scheme Advisory Board's Key Performance Indicators may be viewed as best estimate. Using these assumptions, the assessed funding position as at 31 March 2016 would have been 78%.

Assets

We have taken the assets of the Fund into account at their bid value as provided to us by the Administering Authority.

In our opinion, the basis for placing a value on members' benefits is consistent with that for valuing the assets - both are related to market conditions at the valuation date.

4 Results

The Administering Authority has prepared a Funding Strategy Statement which sets out its funding objectives for the Fund. In broad terms, the main valuation objectives are to hold sufficient assets in the Fund to meet the assessed cost of members' accrued benefits on the target funding basis ("the Funding Objective") and to set employer contributions which ensure both the long term solvency and the long term cost efficiency of the Fund ("the Contribution Objective").

Funding Position Relative to Funding Target

In assessing the extent to which the Funding Objective was met at the valuation date, we have used the actuarial assumptions described in the previous section of this report for the target funding basis and the funding method, also earlier described. The table below compares the value of the assets and liabilities at 31 March 2016. The 31 March 2013 results are also shown for reference.

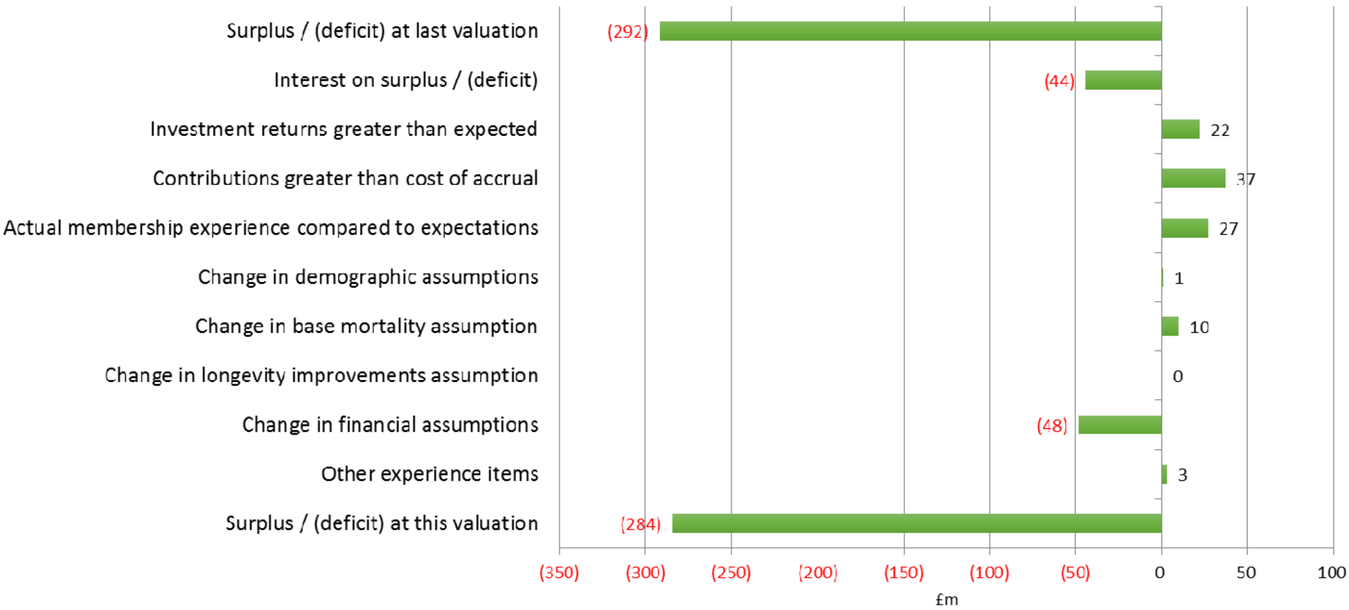
A funding level of 100% would correspond to the Funding Objective being met at the valuation date.

Valuation Date	31 March 2013	31 March 2016
Past Service Liabilities	**(£m)**	**(£m)**
Employees	266.2	271.9
Deferred Pensioners	114.5	157.3
Pensioners	371.4	428.1
Total Liabilities	**752.1**	**857.3**
Assets	**460.6**	**572.9**
Surplus / (Deficit)	**(291.5)**	**(284.4)**
Funding Level	**61%**	**67%**

The Funding Objective was not met at this Valuation: there was a shortfall of assets relative to the assessed cost of members' benefits on the target funding basis of around £284m.

Summary of changes to the funding position

The chart below illustrates the factors that caused the changes in the funding position between 31 March 2013 and 31 March 2016:



Further comments on some of the items in this chart:

- There is an interest cost of £44m. This is broadly three years of compound interest at 4.8% p.a. applied to the previous valuation deficit of £292m (and can be thought of as the investment return that would have been achieved on the extra assets the Fund would have held if fully funded).
- Investment returns being higher than expected since 2013 lead to a gain of £22m. This is roughly the difference between the actual three-year return (19.6%) and expected three-year return (15.1%) applied to the Whole Fund assets from the previous valuation of £461m, with a further allowance made for cashflows during the period.
- Employers have contributed £37m towards reducing the deficit.
- The membership experience of the Fund has differed to the assumptions made at the 2013 valuation leading to gain of £27m. The table below summarises the significant factors that underlie these differences:

	Expected	Actual	Difference	Impact
Pre-retirement experience				
Early leavers (no.of lives)	3,392	2,238	(1,154)	Positive
Ill-health retirements* (no.of lives)	103	46	(57)	Positive
Salary increases** (p.a.)	3.7%	2.4%	(1.3%)	Positive
Post-retirement experience				
Benefit increases (p.a.)	2.5%	1.2%	(1.3%)	Positive
Pensions ceasing (£m)	2.3	2.3	0	Nil

**Tier 1 and Tier 2 ill-health retirements only*
***Includes allowances for promotional increases*

- The impact of the change in demographic assumptions has been a gain of around £1m.
- The change in mortality assumptions (baseline and improvements) has given rise to a gain of £10m. .
- The change in financial conditions since the previous valuation has led to a loss of £48m. This is due to a decrease in the real discount rate between 2013 and 2016. This has partially been offset by the increase to the assumed gap between RPI and CPI and the reduction in the expected future salary growth for benefits linked to final salary.
- Other experience items, such as changes in the membership data, have served to decrease the deficit at this valuation by around £3m.

Employer Contribution Rates

The Contribution Objective is achieved by setting employer contributions which are likely to be sufficient to meet both the cost of new benefits accruing and to address any funding deficit relative to the funding target over the agreed time horizon. A secondary objective is to maintain, where possible, relatively stable employer contribution rates.

For each employer in the Fund, to meet the Contribution Objective, a Primary Rate has been calculated in order to fund the cost of new benefits accruing in the Fund. Additionally, if required, a Secondary Rate has also been calculated to target a fully funded position within the employer's set time horizon. These rates have been assessed using a financial model that assesses the funding outcome for the employer under 5,000 different possible future economic scenarios, where the key financial assumptions about pension increases and investment returns vary. The employer contribution rates have been set to achieve the funding target over the agreed time horizon and with the appropriate likelihood of success. The time horizon and the likelihood parameters vary by employer according to each employer's characteristics. These parameters are set out in the Funding Strategy Statement and have been communicated to employers. More information about the methodology used to calculate the contribution rates is set out in **Appendix C**.

The employer contributions payable from 1 April 2017 are given in **Appendix H**, and these have been devised in line with the Funding Strategy Statement: see **section 6**.

The table below summarises the Whole Fund Primary and Secondary Contribution rates at this valuation. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates (before any pre-payment or capitalisation of future contributions), calculated in accordance with the Regulations and CIPFA guidance.

Primary rate	Secondary Rate		
1 April 2017 - 31 March 2020	2017/18	2018/19	2019/20
18.2% of pensionable pay	£8,985,000	£10,469,000	£11,952,000

The rates above include an allowance for administration expenses of 0.8% of pay.

The average employee contribution rate is 6.3% of pensionable pay. Note that the employee contribution rate includes any additional contributions being paid by employees as at 31 March 2016 into the Fund and assumes 5% of members opt into the '50:50' scheme in future.

The table below shows the Fund "Common Contribution rate' as at 31 March 2013 for information purposes. **The change in regulatory regime and guidance on contribution rates means that a direct comparison to the Whole Fund rate at 2016 is not appropriate.**

Contribution Rates	31 March 2013 (% of pay)
Employer future service rate (incl. expenses)	20.1%
Past Service Adjustment	17.5%
Total employer contribution rate (incl. expenses)	**37.6%**
Employee contribution rate	6.3%
Expenses	0.7%

5 Risk Assessment

The valuation results depend critically on the actuarial assumptions that are made about the future of the Fund. If all of the assumptions made at this valuation were exactly borne out in practice then the results presented in this document would represent the true cost of the Fund as it currently stands at 31 March 2016.

However, no one can predict the future with certainty and it is unlikely that future experience will exactly match the assumptions. The future therefore presents a variety of risks to the Fund and these should be considered as part of the valuation process. In particular:

- The main risks to the financial health of the Fund should be **identified**;
- Where possible, the financial significance of these risks should be **quantified**;
- Consideration should be given as to how these risks can then be **controlled** or **mitigated**; and
- These risks should then be **monitored** to assess whether any mitigation is actually working.

This section investigates the potential implications of the actuarial assumptions not being borne out in practice.

Sensitivity of past service funding position results to changes in assumptions

The table below gives an indication of the sensitivity of the funding position to changes in two of the main financial assumptions used:

		Benefit Increases & CARE Revaluation			
Discount Rates		2.5%	2.1%	1.7%	
	3.2%	1,032	975	922	Liabilities (£m)
		573	573	573	Assets (£m)
		(459)	(403)	(349)	(Deficit) (£m)
		55%	59%	62%	Funding Level
	4.0%	907	857	810	Liabilities (£m)
		573	573	573	Assets (£m)
		(334)	(284)	(238)	(Deficit) (£m)
		63%	67%	71%	Funding Level
	4.8%	799	755	714	Liabilities (£m)
		573	573	573	Assets (£m)
		(226)	(182)	(141)	(Deficit) (£m)
		72%	76%	80%	Funding Level

The valuation results are also very sensitive to unexpected changes in future longevity. All else being equal, if longevity improves in the future at a faster pace than allowed for in the valuation assumptions, the funding level will decline and the required employer contribution rates will increase.

Recent medical advances, changes in lifestyle and a greater awareness of health-related matters have resulted in life expectancy amongst pension fund members improving in recent years at a faster pace than was originally foreseen. It is unknown whether and to what extent such improvements will continue in the future.

For the purposes of this valuation, we have selected assumptions that we believe make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund since the previous valuation.

The table below shows how the valuation results at 31 March 2016 are affected by adopting different longevity assumptions.

	Peaked improvements (£m)	Non-peaked improvements (£m)
Liabilities	857	878
Assets	573	573
(Deficit)	(284)	(305)
Funding Level	**67%**	**65%**

The "further improvements" are a more cautious set of improvements that, in the short term, assume the 'cohort effect' of strong improvements in life expectancy currently being observed amongst a generation born around the early and mid-1930's will continue to strengthen for a few more years before tailing off. This is known as "non-peaked".

This is not an exhaustive list of the assumptions used in the valuation. For example, changes to the assumed level of withdrawals and ill health retirements will also have an effect on the valuation results.

Note that the tables show the effect of changes to each assumption in isolation. In reality, it is perfectly possible for the experience of the Fund to deviate from more than one of our assumptions simultaneously and so the precise effect on the funding position is therefore more complex. Furthermore, the range of assumptions shown here is by no means exhaustive and should not be considered as the limits of how extreme experience could actually be.

Sensitivity of contribution rates to changes in assumptions

The employer contribution rates are dependent on a number of factors including the membership profile, current financial conditions, the outlook for future financial conditions, and demographic trends such as longevity. Changes in each of these factors can have a material impact on the contribution rates (both primary and secondary rates). We have not sought to quantify the impact of differences in the assumptions because of the complex interactions between them.

Investment risk

The Fund holds some of its assets in return seeking assets such as equities to help reduce employers' costs. However, these types of investments can result in high levels of asset volatility. Therefore, there is a risk that future investment returns are below expectations and the funding target is not met. This will require additional contributions from employers to fund any deficit.

Whilst the Fund takes steps to ensure that the level of investment risk is managed and monitored via strategy reviews and performance monitoring, it can never be fully mitigated.

Regulatory risk

One further risk to consider is the possibility of future changes to Regulations that could materially affect the benefits that members become entitled to. It is difficult to predict the nature of any such changes but it is not inconceivable that they could affect, not just the cost of benefits earned after the change, but could also have a retrospective effect on the past service position.

Managing the risks

Whilst there are certain things, such as the performance of investment markets or the life expectancy of members, that are not directly within the control of the Fund, that does not mean that nothing can be done to understand them further and to mitigate their effect. Although these risks are difficult (or impossible) to eliminate, steps can be taken to manage them.

Ways in which some of these risks can be managed could be:

- Set aside a specific reserve to act as a cushion against adverse future experience (possibly by selecting a set of actuarial assumptions that are deliberately more prudent).
- Take steps internally to monitor the decisions taken by members (e.g. 50:50 scheme take-up, commutation) and employers (e.g. relating to early / ill health retirements or salary increases) in a bid to curtail any adverse impact on the Fund.
- Pooling certain employers together at the valuation and then setting a single (pooled) contribution rate that they will all pay. This can help to stabilise contribution rates (at the expense of cross-subsidy between the employers in the pool during the period between valuations).
- Carrying out a review of the future security of the Fund's employers (i.e. assessing the strength of employer covenants) and ultimately their ability to continue to pay contributions or make good future funding deficits.
- Carry out a bespoke analysis of the longevity of Fund members and monitor how this changes over time, so that the longevity assumptions at the valuation provide as close a fit as possible to the particular experience of the Fund.
- 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.
- Purchasing ill health liability insurance to mitigate the risk of an ill health retirement impacting on solvency and funding level of an individual employer where appropriate.
- Monitoring different employer characteristics in order to build up a picture of the risks posed. Examples include membership movements, cash flow positions and employer events such as cessations.
- Regularly reviewing the Fund's membership data to ensure it is complete, up to date and accurate.

6 Related issues

The Fund's valuation operates within a broader framework, and this document should therefore be considered alongside the following:

- the Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated;
- the Investment Strategy Statement, which sets out how the Fund invests the assets;
- the general governance of the Fund, such as meetings of the Pensions Committee, decisions delegated to officers, the Fund's business plan, etc;
- the Fund's risk register; and
- the information the Fund holds about participating employers.

Further recommendations

Valuation frequency

Under the provisions of the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2019. In light of the uncertainty of future financial conditions, we recommend that the financial position of the Fund (and for individual employers in some cases) is monitored by means of interim funding reviews in the period up to this next formal valuation. This will give early warning of changes to funding positions and possible revisions to funding plans.

Investment strategy and risk management

We recommend that the Administering Authority continues to regularly review its investment strategy and ongoing risk management programme.

New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund Actuary for individual calculation as to the required level of contribution. Depending on the number of transferring members the ceding employer's rate may also need to be reviewed.

Additional payments

Employers may make voluntary additional contributions to recover any funding shortfall over a shorter period, subject to agreement with the Administering Authority and after receiving the relevant actuarial advice.

Further sums should be paid to the Fund by employers to meet the capital costs of any unreduced early retirements, reduced early retirements before age 60 and/or augmentation (i.e. additional membership or additional pension) using the methods and factors issued by me from time to time or as otherwise agreed.

In addition, payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions.

Cessations and bulk transfers

Any employer who ceases to participate in the Fund should be referred to us in accordance with Regulation 64 of the Regulations.

Please notify us if there is any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund, or
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement.

7 Reliances and limitations

Scope

This document has been requested by and is provided to the London Borough of Havering in its capacity as Administering Authority to the London Borough of Havering Pension Fund. It has been prepared by Hymans Robertson LLP to fulfil the statutory obligations in accordance with regulation 62 of the Regulations. None of the figures should be used for accounting purposes (e.g. under FRS102 or IAS19) or for any other purpose (e.g. a termination valuation under Regulation 64).

This document should not be released or otherwise disclosed to any third party without our prior written consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability in writing.

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. We have previously issued a separate report confirming that the data provided is fit for the purposes of this valuation including comments on the quality of the data provided. However, if any material issues with the data provided are identified at a later date, then the results stated in this report may change.

Actuarial Standards

The following Technical Actuarial Standards[1] are applicable in relation to this report and have been complied with where material:

- TAS R – Reporting;
- TAS D – Data;
- TAS M – Modelling; and
- Pensions TAS.

Steven Law

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

29 March 2017

Barry McKay

Fellow of the Institute and Faculty of Actuaries

For and behalf of Hymans Robertson LLP

29 March 2017

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this report.

Appendix A: About the pension fund

The purpose of the Fund is to provide retirement and death benefits to its members. It is part of the Local Government Pension Scheme (LGPS) and is a multi-employer defined benefit pension scheme.

Defined benefit pension scheme

In a defined benefit scheme such as this, the nature of retirement benefits that members are entitled to is known in advance. For example, it is known that members will receive a pension on retirement that is linked to their salary (final salary and/or career average) and pensionable service (for service before 1 April 2014) according to a pre-determined formula.

However, the precise cost to the Fund of providing these benefits is **not** known in advance. The estimated cost of these benefits represents a liability to the Fund and assets must be set aside to meet this. The relationship between the value of the liabilities and the value of the assets must be regularly assessed and monitored to ensure that the Fund can fulfil its core objective of providing its members with the retirement benefits that they have been promised.

Liabilities

The Fund's liabilities are the benefits that will be paid in the future to its members (and their dependants).

The precise timing and amount of these benefit payments will depend on future experience, such as when members will retire, how long they will live for in retirement and what economic conditions will be like both before and after retirement. Because these factors are not known in advance, assumptions must be made about future experience. The valuation of these liabilities must be regularly updated to reflect the degree to which actual experience has been in line with these assumptions.

Assets

The Fund's assets arise from the contributions paid by its members and their employers and the investment returns that they generate. The way these assets are invested is of fundamental importance to the Fund. The selection, monitoring and evolution of the Fund's investment strategy are key responsibilities of the Administering Authority.

As the estimated cost of the Fund's liabilities is regularly re-assessed, this effectively means that the amount of assets required to meet them is a moving target. As a result, at any given time the Fund may be technically in surplus or in deficit.

A contribution strategy must be put in place which ensures that each of the Fund's employers pays money into the Fund at a rate which will target the cost of its share of the liabilities in respect of benefits already earned by members and those that will be earned in the future.

The long-term nature of the Fund

The pension fund is a long-term commitment. Even if it were to stop admitting new members today, it would still be paying out benefits to existing members and dependants for many decades to come. It is therefore essential that the various funding and investment decisions that are taken now recognise this and come together to form a coherent long-term strategy.

In order to assist with these decisions, the Regulations require the Administering Authority to obtain a formal valuation of the Fund every three years. Along with the Funding Strategy Statement, this valuation will help determine the funding objectives that will apply from 1 April 2017.

Appendix B: Summary of the Fund's benefits

Provided below is a brief summary of the non-discretionary benefits that we have taken into account for active members at this valuation. This should not be taken as a comprehensive statement of the exact benefits to be paid. For further details please see the Regulations.

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Normal retirement age (NRA)	Age 65.	Age 65.	Equal to the individual member's State Pension Age (minimum 65).
Earliest retirement age (ERA) on which immediate unreduced benefits can be paid on voluntary retirement	As per NRA (age 65). Protections apply to active members in the scheme immediately prior to 1 October 2006 who would have been entitled to immediate payment of unreduced benefits prior to 65, due to: The benefits relating to various segments of scheme membership are protected as set out in Schedule 2 to the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 and associated GAD guidance.		As per NRA (minimum age 65). Protections apply to active members in the scheme for pensions earned up to 1 April 2014, due to: a) Accrued benefits relating to pre April 2014 service at age 65. b) Continued 'Rule of 85' protection for qualifying members. c) Members within 10 yrs of existing NRA at 1/4/12 – no change to when they can retire and no decrease in pension they receive at existing NRA.
Member contributions	Officers - 6% of pensionable pay Manual Workers – 5% of pensionable pay if has protected lower rates rights or 6% for post 31 March 1998 entrants or former entrants with no protected rights.	Banded rates (5.5%-7.5%) depending upon level of full-time equivalent pay. A mechanism for sharing any increased scheme costs between employers and scheme members is included in the LGPS regulations.	Banded rates (5.5%-12.5%) depending upon level of actual pay.
Pensionable pay	All salary, wages, fees and other payments in respect of the employment, excluding non-contractual overtime and some other specified amounts. Some scheme members may be covered by special agreements.		Pay including non-contractual overtime and additional hours.
Final pay	The pensionable pay in the year up to the date of leaving the scheme. Alternative methods used in some cases, e.g. where there has been a break in service or a drop in pensionable pay. Will be required for the statutory underpin and in respect of the final salary link that may apply in respect of certain members of the CARE scheme who have pre April 2014 accrual.		N/A

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Period of scheme membership	Total years and days of service during which a member contributes to the Fund. (e.g. transfers from other pension arrangements, augmentation, or from April 2008 the award of additional pension). For part time members, the membership is proportionate with regard to their contractual hours and a full time equivalent). Additional periods may be granted dependent on member circumstances.		N/A
Normal retirement benefits at NRA	Annual Retirement Pension - 1/80th of final pay for each year of scheme membership. Lump Sum Retirement Grant - 3/80th of final pay for each year of scheme membership.	Scheme membership from 1 April 2008: Annual Retirement Pension - 1/60th of final pay for each year of scheme membership. Lump Sum Retirement Grant – none except by commutation of pension.	Scheme membership from 1 April 2014: Annual Retirement Pension - 1/49th of pensionable pay (or assumed pensionable pay) for each year of scheme membership revalued to NRA in line with CPI. Lump Sum Retirement Grant - none except by commutation of pension.
Option to increase retirement lump sum benefit	In addition to the standard retirement grant any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.
Voluntary early retirement benefits (non ill-health)	On retirement after age 60, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).		On retirement after age 55, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).
Employer's consent early retirement benefits (non ill-health)	On retirement after age 55 with employer's consent. Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction. Otherwise, benefits are subject to reduction on account of early payment, unless this is waived by the employer.		Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction. Employer's consent is no longer required for a member to retire from age 55. However, benefits are subject to reduction on account of early payment, unless this is waived by the employer.

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Ill-health benefits	As a result of permanent ill-health or incapacity. Immediate payment of unreduced benefits. Enhancement to scheme membership, dependent on actual membership. Enhancement seldom more than 6 years 243 days.	As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before age 65. Immediate payment of unreduced benefits. Enhanced to scheme membership, dependent on severity of ill health. 100% of prospective membership to age 65 where no likelihood of undertaking any gainful employment prior to age 65; 25% of prospective membership to age 65 where likelihood of obtaining gainful employment after 3 years of leaving, but before age 65; or 0% of prospective membership where there is a likelihood of undertaking gainful employment within 3 years of leaving employment	As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before NRA. Immediate payment of unreduced benefits. Enhanced to scheme membership, dependent on severity of ill health. 100% of prospective membership to age NRA where no likelihood of undertaking any gainful employment prior to age NRA; 25% of prospective membership to age NRA where likelihood of obtaining gainful employment after 3 years of leaving, but before age NRA; or 0% of prospective membership where there is a likelihood of undertaking gainful employment within 3 years of leaving employment

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Flexible retirement	A member who has attained the age of 50, and who with their employer's consent, reduces the hours they work, or the grade in which they are employed, may elect in writing to the appropriate Administering Authority that such benefits may, with their employer's consent, be paid to them notwithstanding that he has not retired from that employment. Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	A member who has attained the age of 55 and who, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may make a request in writing to the appropriate Administering Authority to receive **all or part** of his benefits. Employer consent is required for benefits to be released. Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	
Pension increases	All pensions in payment, deferred pensions and dependant's pensions other than benefits arising from the payment of additional voluntary contributions are increased annually. Pensions are increased partially under the Pensions (Increase) Act 1971 and partially in accordance with Social Security Pensions Act 1975 (depending on the proportions relating to pre 88 GMP, post 88 GMP and excess over GMP).		

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Death after retirement	Deceased member's former retirement pension is payable for 3 months or 6 months if there is a child in the care of the spouse, civil partner or co-habiting partner. A short term spouse's or civil partner's pension of one half of the member's pension (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners) is payable. Different rules also apply where marriage takes place after leaving service. plus If the member dies within five years of retiring and before age 75 the balance of five years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	A spouse's, civil partner's or nominated cohabiting partner's pension payable at a rate of 1/160th of the member's total membership multiplied by final pay (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners) is payable. Different rules also apply where marriage takes place after leaving service plus If the member dies within ten years of retiring and before age 75 the balance of ten years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	A spouse's, civil partner's or nominated cohabiting partner's pension payable at a rate of 1/160th of the member's total membership multiplied by **final pay** for the pre 1 April 2014 membership (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners). Different rules also apply where marriage takes place after leaving service For the period from 1 April 2014 the spouse, civil partner or cohabiting partner receives a pension calculated in the same way as the member's CARE benefits but using an accrual rate of 1/160. plus If the member dies within ten years of retiring and before age 75 the balance of ten years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Death in service	A lump sum of two times final pay; plus A spouse's or civil partner's pension of one half of the ill-health retirement pension that would have been paid to the scheme member if he had retired on the day of death (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners); plus Children's pensions may also be payable.	A lump sum of three times final pay; plus A spouse's, civil partner's or cohabiting partner's pension payable at a rate of 1/160th of the member's total (augmented to age 65) membership (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners), multiplied by final pay; plus Children's pensions may also be payable.	A lump sum of three times annual assumed pensionable pay; plus A spouse's, civil partner's or cohabiting partner's pension payable at a rate of 1/160th of the member's total membership prior to 31 March 2014, (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners), multiplied by final pay. For the period from 1 April 2014 the spouse, civil partner or cohabiting partner receives a pension calculated in the same way as the member's CARE benefits but using an accrual rate of 1/160 and assuming the member had stayed in active membership until their SPA. Plus Children's pensions may also be payable.
Leaving service options	If the member has completed three months' or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions (earliest date of payment without employer consent is 60); or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than three months' scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.		If the member has completed two years or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions (earliest date of payment without employer consent is 55); or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than two years scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.
State pension scheme	From 6th of April 2016, the Fund will no longer be contracted out of the State Second Pension. Until that date, the benefits payable to each member were guaranteed to be not less than those required to enable the Fund to be contracted-out.		
Assumed pensionable pay	N/A		This applies in cases of reduced contractual pay (CPP) resulting from sickness, child related and reserve forces absence, whereby the amount added to the CPP is the assumed pensionable pay rather than the reduced rate of pay actually received.

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
50/50 option	N/A		Optional arrangement allowing 50% of main benefits to be accrued on a 50% employee contribution rate.

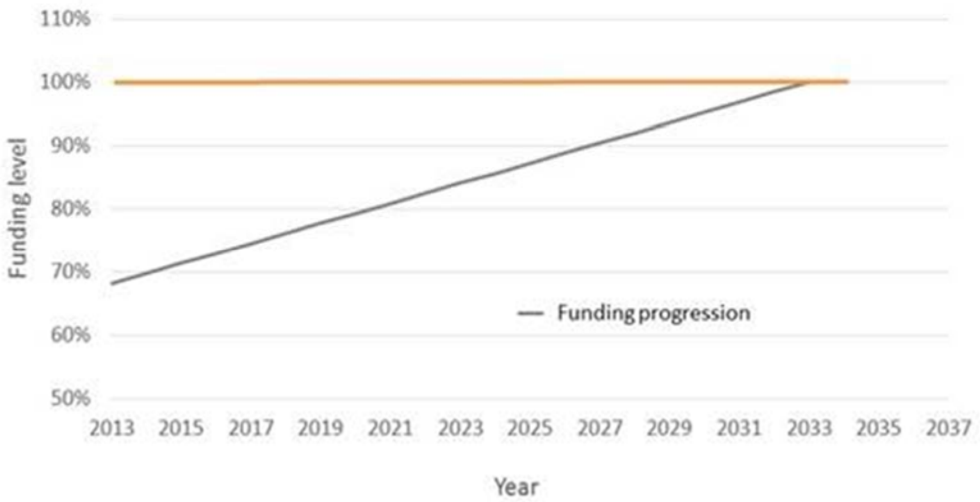
Note: Certain categories of members of the Fund are entitled to benefits that differ from those summarised above.

Discretionary benefits

The LGPS Regulations give employers a number of discretionary powers. The effect on benefits or contributions as a result of the use of these provisions as currently contained within the Regulations has been allowed for in this valuation to the extent that this is reflected in the membership data provided. No allowance has been made for the future use of discretionary powers that will be contained within the scheme from 1 April 2017.

Appendix C: Risk based approach to setting contribution rates

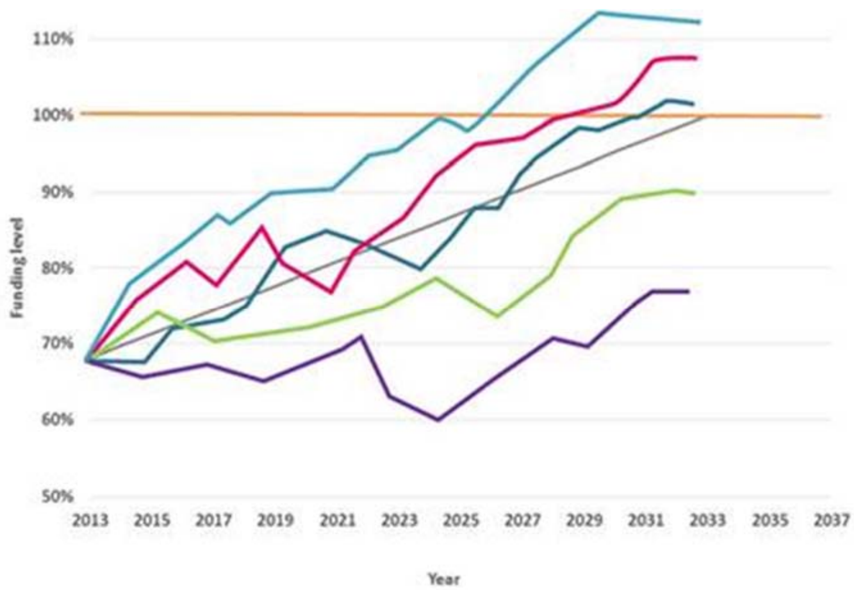
At previous valuations we have calculated contribution rates using a single set of assumptions about future economic conditions (a 'deterministic' method). By using this deterministic method, there is an implicit assumption that the future will follow expectations (i.e. the financial assumptions used in the calculation) and the employer will return to full funding via one 'journey'. This approach is summarised in the illustrative chart below.



However, pension funding is uncertain as:

- the Fund's assets are invested in volatile financial markets and therefore they go up and down in value; and
- the pension benefits are linked to inflation which again can go up and down in value over time.

One single set of assumptions is very unlikely to actually match what happens, and therefore, the funding plan originally set out will not evolve in line with the single journey shown above. The actual evolution of the funding position could be one of many different 'journeys', and a sample of these are given below.



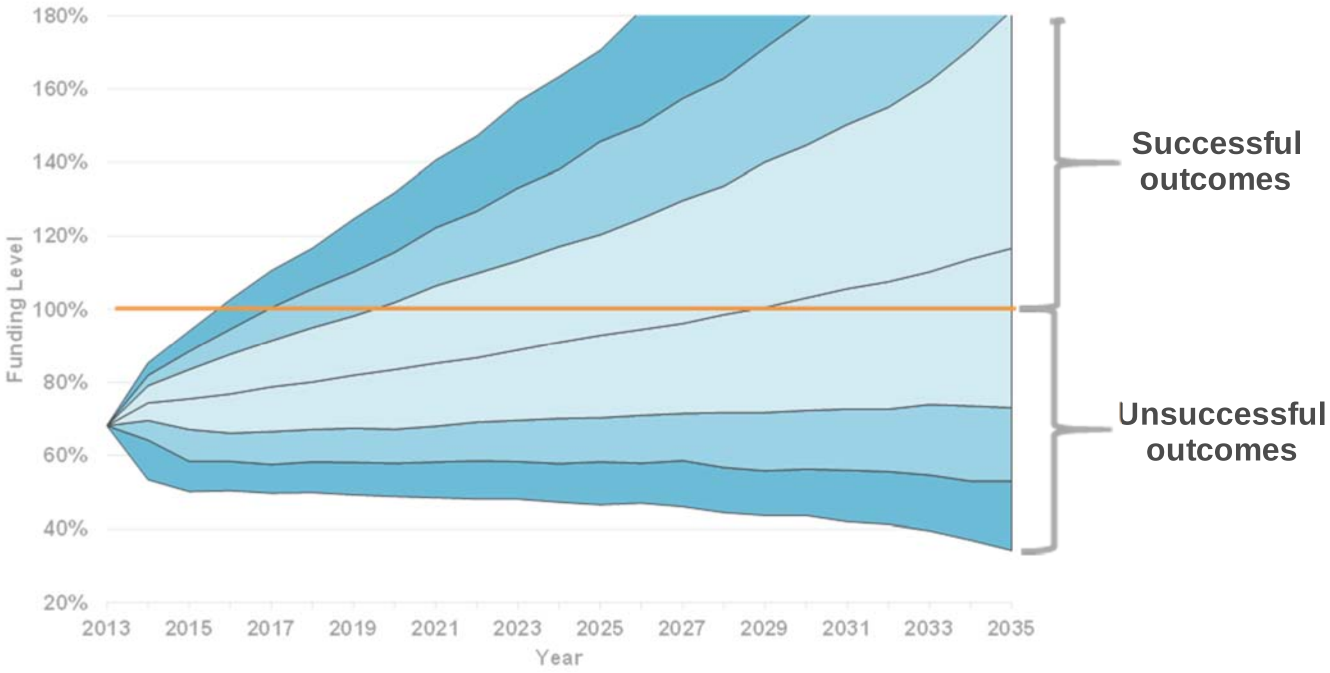
The inherent uncertainty in pension funding creates a risk that a funding plan will not be a success i.e. the funding target will not be reached over the agreed time period.

This risk can never be fully mitigated whilst invested in volatile assets and providing inflation linked benefits, however the main disadvantage of the traditional deterministic method is that it does not allow the Fund, employer, regulators or actuary to assess and understand the risk associated with the proposed funding plan and the likelihood of its success, or otherwise.

Risk Based Approach

At this valuation, we have adopted a 'risk based' approach when setting contribution rates. This approach considers thousands of simulations (or 'journeys') to be projected of how each employer's assets and liabilities may evolve over the future until we have a distribution of funding outcomes (ratio of assets to liabilities). Each simulation represents a different possible journey of how the assets and liabilities could evolve and they will vary due to assumptions about investment returns, inflation and other financial factors. Further technical detail about the methodology underlying these projections is set out in **Appendix F**.

Once we have a sufficient number of outcomes to form a statistically credible distribution (we use 5,000 outcomes), we can examine what level of contribution rate gives an appropriate likelihood of meeting an employer's funding target (usually a 100% funding level) within the agreed timeframe ('time horizon') (i.e. a sufficient number of successful outcomes). The picture below shows a sample distribution of outcomes for an employer.



Having this 'funnel' of outcomes allows the Fund to understand the likelihood of the actual outcome being higher or lower than a certain level. For example, there is 2/3rd's chance the funding level will be somewhere within the light shaded area, and there is a 1 in 100 chance that the funding level will be outside the funnel altogether. Using this 'probability distribution', we then set a contribution rate that leads to a certain amount of funding outcomes being successful (e.g. 2/3rd's).

Further detail on the likelihoods used in employer's funding plans is set out in the Fund's Funding Strategy Statement.

Appendix D: Data

This section contains a summary of the membership, investment and accounting data provided by the Administering Authority for the purposes of this valuation (the corresponding membership and investment data from the previous valuation is also shown for reference). For further details of the data, and the checks and amendments performed in the course of this valuation, please refer to our separate data report.

Membership data – whole fund

Employee members

	31 March 2013		31 March 2016		
	Number	Pensionable Pay* (£000)	Number	Pensionable Pay* (£000)	CARE Pot (£000)
Total employee membership	6,000	95,701	6,358	106,518	3,863

*actual pay (not full-time equivalent)

Deferred pensioners

	31 March 2013		31 March 2016	
	Number	Deferred pension (£000)	Number	Deferred pension (£000)
Total deferred membership	4,735	6,487	6,212	8,743

The figures above also include any "frozen refunds" and "undecided leavers" members at the valuation date.

Current pensioners, spouses and children

	31 March 2013		31 March 2016	
	Number	Pension (£000)	Number	Pension (£000)
Members	4,570	23,133	4,995	25,631
Dependants	811	2,242	834	3,136
Children	37	72	43	61
Total pensioner members	**5,418**	**25,447**	**5,872**	**28,828**

Note that the membership numbers in the table above refer to the number of records provided to us and so will include an element of double-counting in respect of any members who are in receipt (or potentially in receipt of) more than one benefit.

Membership Profile	Average Age (years)		FWL (years)	
	2013	2016	2013	2016
Employees (CARE)	-	50.2	7.1	8.8
Employees (Final Salary)	52.5	53.2		
Deferred Pensioners	51.1	51.5	-	-
Pensioners	68.1	69.1	-	-

The average ages are weighted by liability.

The expected future working lifetime ("FWL") indicates the anticipated length of time that the average employee member will remain as a contributor to the Fund. Note that it allows for the possibility of members leaving, retiring early or dying before retirement.

Assets at 31 March 2016

A summary of the Fund's assets provided by the Administering Authority (excluding members' money-purchase Additional Voluntary Contributions) as at 31 March 2013 and 31 March 2016 is as follows:

Asset class	31 March 2013 (Market Value) (£000)	Allocation %	31 March 2016 (Market Value) (£000)	Allocation %
UK equities	215	47%	359	63%
UK fixed interest gilts	8	2%	12	2%
UK corporate bonds	56	12%	63	11%
UK index-linked gilts	41	9%	52	9%
Overseas equities	94	20%	19	3%
Overseas bonds	14	3%	13	2%
Property	22	5%	33	6%
Cash and net current assets	11	2%	21	4%
Total	**461**	**100%**	**573**	**100%**

Accounting data – revenue account for the three years to 31 March 2016

Consolidated accounts (£000)	Year to			
	31 March 2014	31 March 2015	31 March 2016	Total
Income				
Employer - normal contributions	16,294	18,173	18,533	53,000
Employer - additional contributions	21,590	10,056	15,117	46,763
Employer - early retirement and augmentation strain contributions	590	536	396	1,522
Employee - normal contributions	6,457	6,876	6,965	20,298
Employee - additional contributions	76	63	54	193
Transfers In Received (including group and individual)	2,258	1,573	1,390	5,221
Other Income	0	0	0	0
Total Income	**47,265**	**37,277**	**42,455**	**126,997**
Expenditure				
Gross Retirement Pensions	26,070	27,401	28,190	81,661
Lump Sum Retirement Benefits	5,875	5,676	6,171	17,722
Death in Service Lump sum	442	422	612	1,476
Death in Deferment Lump Sum	0	0	0	0
Death in Retirement Lump Sum	0	0	0	0
Gross Refund of Contributions	2	68	76	146
Transfers out (including bulk and individual)	1,127	1,438	1,906	4,471
Fees and Expenses	1,009	716	867	2,592
Total Expenditure	**34,525**	**35,721**	**37,822**	**108,068**
Net Cashflow	**12,740**	**1,556**	**4,633**	**18,929**
Assets at start of year	**460,575**	**506,019**	**574,669**	**460,575**
Net cashflow	**12,740**	**1,556**	**4,633**	**18,929**
Change in value	**32,704**	**67,094**	**-6,361**	**93,437**
Assets at end of year	**506,019**	**574,669**	**572,941**	**572,941**

Note that the figures above are based on the Fund accounts provided to us for the purposes of this valuation, which were fully audited at the time of our valuation calculations.

Appendix E: Assumptions

Financial assumptions

Financial assumptions	31 March 2013 (% p.a.)	31 March 2016 (% p.a.)
Discount rate	4.8%	4.0%
Price inflation (RPI)	3.3%	3.2%
Pay increases*	3.3%	2.4%
Pension increases:		
pension in excess of GMP	2.5%	2.1%
post-88 GMP	2.5%	2.1%
pre-88 GMP	0.0%	0.0%
Revaluation of deferred pension	2.5%	2.1%
Revaluation of accrued CARE pension	2.5%	2.1%
Expenses	0.7%	0.8%

*An allowance is also made for promotional pay increases (see table below).

Mortality assumptions

Longevity assumptions	31 March 2016
Longevity - baseline	Vita Lite
Longevity - improvements	
CMI Model version used	CMI_2013
Starting rates	CMI calibration based on data from Club Vita using the latest available data as at January 2014.
Long term rate of improvement	Period effects: 1.25% p.a. for men and women. Cohort effects: 0% p.a. for men and for women.
Period of convergence	Period effects: CMI model core values i.e. 10 years for ages 50 and below and 5 years for those aged 95 and above, with linear transition to 20 years for those aged between 60 and 80. Cohort effects: CMI core i.e. 40 years for those born in 1950 or later declining linearly to 5 years for those born in 1915 or earlier.
Proportion of convergence remaining at mid point	50%

As a member of Club Vita, the baseline longevity assumptions that have been adopted at this valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. These curves are based on the data the Fund has provided us with for the purposes of this valuation. Full details of these are available on request.

We have used a longevity improvement assumption based on the industry standard projection model calibrated with information from our longevity experts in Club Vita. The starting point for the improvements has been based on observed death rates in the Club Vita data bank over the period up to 2012.

We have used the 2013 version of the Continuous Mortality Investigation (CMI) longevity improvements model, instead of the more recent 2015 version, as we do not believe the increased mortality experience factored into the

2015 model is the start of a new trend. We believe it is more appropriate to use the 2013 version of the model for the 2016 valuation.

In the short term we have assumed that the improvements in life expectancy observed up to 2010 will start to tail off immediately, resulting in life expectancy increasing less rapidly than has been seen over the last decade or two. This could be described as assuming that improvements have 'peaked'.

In the longer term we have assumed that increases in life expectancy will stabilise at a rate of increase of 0.9 years per decade for men and women. This is equivalent to assuming that longer term mortality rates will fall at a rate of 1.25% p.a. for men and women.

However, we have assumed that above age 90 improvements in mortality are hard to achieve, and so the long term rate of improvement declines between ages 90 and 120 so that no improvements are seen at ages 120 and over. The initial rate of mortality is assumed to decline steadily above age 98.

Other demographic valuation assumptions

Retirements in normal health	We have adopted the retirement age pattern assumption as specified by the Scheme Advisory Board for preparing Key Performance Indicators. Further details about this assumption are available on request.
Retirements in ill health	Allowance has been made for ill-health retirements before Normal Pension Age (see table below).
Withdrawals	Allowance has been made for withdrawals from service (see table below).
Family details	A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent to 75% for service from 1 April 2008).
50:50 option	5.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

The tables below show details of the assumptions actually used for specimen ages. The promotional pay scale is an annual average for all employees at each age. It is in addition to the allowance for general pay inflation described above. For membership movements, the percentages represent the probability that an individual at each age leaves service within the following twelve months. The abbreviations FT and PT refer to full-time and part-time respectively.

Males

Age	Salary Scale	Incidence per 1000 active members per annum						
		Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.21	219.73	439.47	0.00	0.00	0.00	0.00
25	117	0.21	145.14	290.28	0.00	0.00	0.00	0.00
30	131	0.26	102.98	205.93	0.00	0.00	0.00	0.00
35	144	0.30	80.46	160.88	0.12	0.09	0.10	0.07
40	150	0.51	64.78	129.48	0.20	0.15	0.16	0.12
45	157	0.85	60.85	121.60	0.44	0.33	0.35	0.27
50	162	1.36	50.16	100.12	1.13	0.85	1.14	0.85
55	162	2.13	39.50	78.88	4.42	3.32	2.56	1.92
60	162	3.83	35.20	70.28	7.78	5.84	2.20	1.65
65	162	6.38	0.00	0.00	14.78	11.09	0.00	0.00

Please note that the withdrawal figures include tier 3 ill health.

Females

Age	Salary Scale	Incidence per 1000 active members per annum						
		Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.12	151.58	252.63	0.00	0.00	0.00	0.00
25	117	0.12	101.99	169.97	0.12	0.09	0.10	0.07
30	131	0.18	85.50	142.46	0.16	0.12	0.13	0.10
35	144	0.30	73.79	122.91	0.32	0.24	0.26	0.19
40	150	0.48	61.42	102.26	0.48	0.36	0.39	0.29
45	157	0.77	57.31	95.41	0.65	0.48	0.51	0.39
50	162	1.13	48.32	80.35	1.21	0.91	1.22	0.92
55	162	1.49	36.05	60.02	4.48	3.36	2.60	1.95
60	162	1.90	29.06	48.31	9.51	7.14	2.69	2.01
65	162	2.44	0.00	0.00	17.09	12.82	0.00	0.00

Please note that the withdrawal figures include tier 3 ill health.

Appendix F: Technical appendix for contribution rate modelling

This appendix is provided for readers seeking to understand the technical methodology used in assessing the employer contribution rates.

In order to assess the likelihood of the employer's section of the Fund achieving full funding we have carried out stochastic asset liability modelling (ALM) that takes into account the main characteristics and features of each employer's share of the Fund's assets and liabilities. For stabilised employers a full ALM, known as comPASS has been used. For other employers a simplified ALM, known as TARGET has been used. Please refer to the Funding Strategy Statement to determine which method has been applied for each employer.

The following sections provide more detail on the background to the modelling.

Cash flows

In projecting forward the evolution of each employer's section of the Fund, we have used anticipated future benefit cashflows. These cashflows have been generated using the membership data provided for the formal valuation as at 31 March 2016, the demographic and financial assumptions used for the valuation and make an allowance for future new joiners to the Fund (if any employer is open to new entrants).

For comPASS we have estimated future service benefit cash flows and projected salary roll for new entrants (where appropriate) after the valuation date such that payroll remains constant in real terms (i.e. full replacement) unless otherwise stated. There is a distribution of new entrants introduced at ages between 25 and 65, and the average age of the new entrants is assumed to be 40 years. All new entrants are assumed to join and then leave service at SPA, which is a much simplified set of assumptions compared with the modelling of existing members. The base mortality table used for the new entrants is an average of mortality across the LGPS and is not specific to the Fund, which is another simplification compared to the modelling of existing members. TARGET uses a similar but simplified approach to generating new entrants. Nonetheless, we believe that these assumptions are reasonable for the purposes of the modelling given the highly significant uncertainty associated with the level of new entrants.

We do not allow for any variation in actual experience away from the demographic assumptions underlying the cashflows. Variations in demographic assumptions (and experience relative to those assumptions) can result in significant changes to the funding level and contribution rates. We allow for variations in inflation (RPI or CPI as appropriate), inflation expectations (RPI or CPI as appropriate), interest rates, yield curves and asset class returns. Cashflows into and out of the Fund are projected forward in annual increments and are assumed to occur in the middle of each financial year (April to March). Investment strategies are assumed to be rebalanced annually.

Asset liability model (comPASS)

These cashflows, and the employer's assets, are projected forward using stochastic projections of asset returns and economic factors such as inflation and bond yields. These projections are provided by the Economic Scenario Service (ESS), our (proprietary) stochastic asset model, which is discussed in more detail below.

In the modelling we have assumed that the Fund will undergo valuations every three years and a contribution rate will be set that will come into force one year after the simulated valuation date. For 'stabilised' contributions, the rate at which the contribution changes is capped and floored. There is no guarantee that such capping or flooring will be appropriate in future; this assumption has been made so as to illustrate the likely impact of practical steps that may be taken to limit changes in contribution rates over time.

Unless stated otherwise, we have assumed that all contributions are made and not varied throughout the period of projection irrespective of the funding position. In practice the contributions are likely to vary especially if the funding level changes significantly.

Investment strategy is also likely to change with significant changes in funding level, but we have not considered the impact of this.

In allowing for the simulated economic scenarios, we have used suitable approximations for updating the projected cashflows. The nature of the approximations is such that the major financial and investment risks can be broadly quantified. However, a more detailed analysis would be required to understand fully the implications and appropriate implementation of a very low risk or 'cash flow matched' strategy.

We would emphasise that the returns that could be achieved by investing in any of the asset classes will depend on the exact timing of any investment/disinvestment. In addition, there will be costs associated with buying or selling these assets. The model implicitly assumes that all returns are net of costs and that investment/disinvestment and rebalancing are achieved without market impact and without any attempt to 'time' entry or exit.

Asset liability model (TARGET)

TARGET uses a similar, but simplified, modelling approach to that used for comPASS.

Contribution rates are inputs to the model and are assumed not to vary throughout the period of projection, with no valuation every three years or setting of 'stabilised' contribution rates.

In allowing for the simulated economic scenarios, we have used more approximate methods for updating the projected cash flows. The nature of the approximations is such that the major financial and investment risks can be broadly quantified.

When projecting forward the assets, we have modelled a proxy for the Fund's investment strategy by simplifying their current benchmark into growth (UK equity) and non-growth (index-linked gilts) allocations, and then adjusting the volatility of the resultant portfolio results to approximately reflect the diversification benefit of the Fund's investment strategy.

Economic Scenario Service

The distributions of outcomes depend significantly on the Economic Scenario Service (ESS), our (proprietary) stochastic asset model. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of financial markets and are updated each month (for example, the current level of equity market volatility) while other more subjective parameters do not change with different calibrations of the model.

Key subjective assumptions are the average excess equity return over the risk free asset (tending to approximately 3% p.a. as the investment horizon is increased), the volatility of equity returns (approximately 18% p.a. over the long term) and the level and volatility of yields, credit spreads, inflation and expected (breakeven) inflation, which affect the projected value placed on the liabilities and bond returns. The market for CPI linked instruments is not well developed and our model for expected CPI in particular may be subject to additional model uncertainty as a consequence. The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.

Our expectation (i.e. the average outcome) is that long term real interest rates will gradually rise from their current low levels. Higher long-term yields in the future will mean a lower value placed on liabilities and therefore our median projection will show, all other things being equal, an improvement in the current funding position (because of the mismatch between assets and liabilities). The mean reversion in yields also affects expected bond returns.

While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.

Expected Rate of Returns and Volatilities

The following figures have been calculated using 5,000 simulations of the Economic Scenario Service, calibrated using market data as at 31 March 2016. All returns are shown net of fees. Percentiles refer to percentiles of the 5,000 simulations and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the (simulated) yields in force at that time horizon. Only a subset of the asset classes are shown below.

The calibration of the model at 31 March 2016 indicates that a period of outward yield movement is expected. For example, over the next 20 years our model expects the 17 year maturity annualised real (nominal) interest rate to rise from -1.0% (2.2%) to 0.8% (4.0%).

		Annualised total returns												
		Index Linked Gilts (long dated)	UK Equity	Overseas Equity	Private Equity	Property	Senior Loans	Diversified Credit	Absolute Return Bonds (near zero duration)	Diversified Alternatives	Hedge Funds	Inflation	17 year real yield	17 year yield
5 years	16th %'ile	-2.9%	-3.7%	-5.6%	-7.2%	-3.8%	-0.8%	0.2%	-2.6%	-2.0%	-3.7%	1.2%	-1.6%	1.7%
	50th %'ile	0.5%	4.5%	4.1%	5.3%	2.0%	2.2%	2.3%	2.0%	2.6%	2.1%	2.6%	-0.7%	3.0%
	84th %'ile	4.1%	12.7%	14.3%	19.4%	8.3%	5.3%	4.5%	6.8%	7.5%	8.2%	4.2%	0.2%	4.5%
10 years	16th %'ile	-1.8%	-1.1%	-2.6%	-3.4%	-1.8%	0.7%	1.3%	-0.8%	-0.1%	-1.3%	1.4%	-1.5%	1.9%
	50th %'ile	0.3%	5.0%	4.6%	5.9%	2.8%	3.1%	3.0%	2.6%	3.4%	3.0%	2.8%	-0.3%	3.5%
	84th %'ile	2.7%	11.1%	12.1%	16.0%	7.5%	5.6%	4.7%	6.2%	7.2%	7.5%	4.5%	0.9%	5.5%
20 years	16th %'ile	-1.0%	1.3%	0.2%	0.3%	0.1%	2.1%	2.4%	1.0%	1.8%	0.7%	1.7%	-0.7%	2.3%
	50th %'ile	0.5%	5.9%	5.6%	7.0%	3.7%	4.2%	4.0%	3.6%	4.5%	4.1%	3.0%	0.8%	4.0%
	84th %'ile	2.2%	10.7%	11.2%	14.0%	7.6%	6.5%	5.8%	6.5%	7.5%	7.8%	4.4%	2.3%	6.3%
	Dispersion (1 yr)	9%	16%	19%	29%	14%	6%	6%	10%	10%	12%	1%		

Appendix G: Events since valuation date

Post-valuation events

These valuation results are in effect a snapshot of the Fund as at 31 March 2016. Since that date, various events have had an effect on the financial position of the Fund. Whilst we have not explicitly altered the valuation results to allow for these events, a short discussion of these "post-valuation events" can still be beneficial in understanding the variability of pension funding.

In the period from the valuation date to early March 2017, the Fund asset returns have been significantly better than expected. However, global forward looking expectations for asset returns have fallen in light of events such as the Brexit vote which has offset some of the gains. As a result, the funding level has improved marginally over the period, however, day to day volatility is significant

It should be noted that the above is for information only: the figures in this report have all been prepared using membership data, audited asset information and market-based assumptions all as at 31 March 2016. In particular, we do not propose amending any of the contribution rates listed in the Rates & Adjustments Certificate on the basis of these market changes, and all employer contribution rates are based on valuation date market conditions. In addition, these rates are finalised within a risk-measured framework as laid out in the Fund's Funding Strategy Statement ("FSS"). We do not propose altering the FSS or valuation calculations to include allowance for post-valuation date market changes since a long term view has been taken.

Other events

Other than investment conditions changes above, we are not aware of any material changes at whole fund level or events occurring since the valuation date.

Appendix H: Rates and adjustments certificate

In accordance with regulation 62(4) of the Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2017 to 31 March 2020 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated March 2017 and our report on the actuarial valuation dated March 2017.

The required minimum contribution rates are set out below.

Employer code	Employer/Pool name	Primary Rate 1 April 2017-31 March 2020	Secondary Rate (%/£)			Total Contribution Rate (%/£)		
			2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
-	London Borough of Havering Pool*	17.5%	-1.9% plus £9,650,000	-1.9% plus £11,150,000	-1.9% plus £12,650,000	15.6% plus £9,650,000	15.6% plus £11,150,000	15.6% plus £12,650,000
61	Abbs Cross School	20.4%	5.6%	5.6%	5.6%	26.0%	26.0%	26.0%
62	Frances Bardsley School	21.5%	3.3%	3.3%	3.3%	24.8%	24.8%	24.8%
63	Havering Sixth Form College	20.5%	£37,000	£38,000	£39,000	20.5% plus £37,000	20.5% plus £38,000	20.5% plus £39,000
64	Havering College of Further & Higher Education	19.5%	£331,000	£339,000	£347,000	19.5% plus £331,000	19.5% plus £339,000	19.5% plus £347,000
65	Coopers Company & Coborn School	20.9%	4.3%	4.3%	4.3%	25.2%	25.2%	25.2%
66	Sacred Heart of Mary School	21.4%	4.6%	4.6%	4.6%	26.0%	26.0%	26.0%
175	SLM Fitness and Health Ltd	26.0%	-	-	-	26.0%	26.0%	26.0%
176	SLM Community Leisure Ltd	26.0%	-	-	-	26.0%	26.0%	26.0%
179	Chafford School	20.4%	2.5%	2.5%	2.5%	22.9%	22.9%	22.9%
189	Brittons Academy	21.1%	3.7%	3.7%	3.7%	24.8%	24.8%	24.8%
190	Campion Academy	20.7%	3.5%	3.5%	3.5%	24.2%	24.2%	24.2%
191	Hall Mead Academy	21.2%	4.0%	4.0%	4.0%	25.2%	25.2%	25.2%
192	St Edwards Academy	21.2%	4.7%	4.7%	4.7%	25.9%	25.9%	25.9%
193	Emerson Park Academy	20.6%	2.5%	2.5%	2.5%	23.1%	23.1%	23.1%
194	Redden Court Academy	20.4%	3.9%	3.9%	3.9%	24.3%	24.3%	24.3%
199	Albany Academy	19.7%	2.0%	2.0%	2.0%	21.7%	21.7%	21.7%
200	Family Mosaic	31.8%	-31.8%	-31.8%	-31.8%	0%¥	0%¥	0%¥
203	Bower Park	20.7%	4.1%	4.1%	4.1%	24.8%	24.8%	24.8%
205	Langtons Junior Academy	21.9%	0.2%	0.2%	0.2%	22.1%	22.1%	22.1%
206	Oasis Pinewood Academy	20.2%	2.7%	2.7%	2.7%	22.9%	22.9%	22.9%
207	Breyer Group Repairs	23.8%	-	-	-	23.8%	23.8%	23.8%
208	Breyer Group Voids	23.8%	-	-	-	23.8%	23.8%	23.8%
214	Dycorts	19.1%	2.3%	2.3%	2.3%	21.4%	21.4%	21.4%
215	Caterlink	30.1%	-30.1%	-30.1%	-30.1%	0%¥	0%¥	0%¥
201, 202	Upminster Academies Trust	21.9%	4.0%	4.0%	4.0%	25.9%	25.9%	25.9%
209, 210	Rise Park Academy Trust	20.6%	4.5%	4.5%	4.5%	25.1%	25.1%	25.1%
180, 204, 213, 216, 218**	Drapers Multi Academy Trust	20.4%	3.4%	3.4%	3.4%	23.8%	23.8%	23.8%
225	Accent Catering	30.9%	-	-	-	30.9%	30.9%	30.9%
New employers from 1 April 2016								
217	Ravensbourne Academy	19.5%	3.5%	3.5%	3.5%	23.0%	23.0%	23.0%
220	Benhurst Primary	23.0%	3.4%	3.4%	3.4%	26.4%	26.4%	26.4%
221	Concordia Academy	17.5%	-	-	-	17.5%	17.5%	17.5%
222	Olive AP Academy	22.7%	4.0%	4.0%	4.0%	26.7%	26.7%	26.7%

*The London Borough of Havering may 'pre-pay' their Primary and/or Secondary Rates annually or triennially in advance. Given the discounted nature our calculations, the London Borough of Havering Pool rate shown above would be eligible for a reduction if any 'pre-payments' were made in April. The appropriate reductions to apply are shown below:

- Annual prepayments: The contribution rates shown would be multiplied by 0.981; and
- Triennial prepayment: The contribution rates shown would be multiplied by 0.943.

Where advance contributions are made, the Council will need to agree with the actuary in advance an estimate of pensionable pay for the entire period, and if the actual pensionable pay over any year is higher than this, a balancing payment would be required (no later than 15th April following the year-end).

**Brookside Infants joined the fund on 1 April 2016 and have been included in the Drapers Multi Academy Trust for contribution rate purposes.

¥ These Employers are expected to cease participation in the Fund prior to the next Rates and Adjustments Certificate. As a result, we recommend their rate be reviewed annually (or more often if required) to reduce the risk of an unanticipated exit payment or surplus on termination of their admission agreement.

Further comments

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated March 2017 and the report on the actuarial valuation dated March 2017.

Regulation 62(8) requires a statement of the assumptions on which the Rates and Adjustments certificate is given regarding the number of (and liabilities pertaining to) members who will become entitled to payment of pensions under the Regulations. These assumptions can be found in Appendix E. These assumptions cover members who become entitled to payment of pension via normal retirement and ill health retirement. Further members will become entitled due to voluntary and involuntary early retirement (i.e. on redundancy and efficiency grounds) for which no allowance has been made.

Ill Health Insurance

Note that if an employer has ill health liability insurance in place with a suitable insurer and provides satisfactory evidence to the Administering Authority, then their Primary Rate may be reduced by the cost of their insurance premium, for the period the insurance is in place.

Stabilisation

The London Borough of Havering pool has had their contribution rate stabilised following a separate modelling exercise that we carried out on their behalf.

Pooling

For the purposes of setting contribution rates, employees coded under Homes In Havering, The Royal Liberty School and Havering Magistrates Court Committee have been pooled with London Borough of Havering.

Signature:		Barry McKay
Date:	29 March 2017	29 March 2017
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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 **(b) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest**	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).
	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 no longer required to be specified in the ISS
	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 adoptation 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 Manager provides in house support to members. The Pension Committee is also supported by the Statatory Swection 151 and the Council's pension administration and payroll sections. Internal and external resources are considered as part of the business plan.
	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 receives agendas five working days prior to meeting date.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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.
	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 pensions 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 :

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
(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. 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.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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
	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 ISS
	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**

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
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 2016. 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 ISS and FSS.
	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.	
	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 ISS.
	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

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	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.	are considered as part of the triennial valuations and mid valuations, however cash flow is monitored monthly and reported to committee quarterly.
	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 auditors 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.
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:	

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
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 covers 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.
	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.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	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.
	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.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	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.	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.
	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.	
	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 requirements including attendance at all training sessions.
	17) the objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved.	
	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.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	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.	Achievement of training outcomes are self assessed by the Pensions Committee. Targets such as dates for issuing agendas and minutes are strictly adhered to. Achievement 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:** **a) recognise, and ensure that their partners in the investment chain adopt, the FRC's UK Stewardship Code** **b) include a statement of their policy on responsible ownership in the statement of investment principles** **c) report periodically to scheme members on the discharge of such responsibilities.**		**SUMMARY: PARTIALLY COMPLIANT**
	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 ISS, a copy of which is also included in the Pension Fund Annual Report.
	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 the funds investment managers to integrate all material financial factors into the decision making process for fund investments.
	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 mangers to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance.
	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.	
	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 ISS 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.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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 ISS. 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 mangers, 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.
	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:**	The committee should:	**SUMMARY: FULLY COMPLIANT**
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	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 a regular basis. Any non-compliance is reported and necessary actions included.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
b) provide regular communication to scheme members in the form they consider most appropriate.	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.	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.
	3) build an integrated approach to its own governance and to communicating this and all other aspects of its work to its stakeholders.	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
	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 ISS 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:	

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	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.
	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 DCLG guidance and a copy has been sent to theD 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.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 15 JUNE 2017

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 2017**
CLT Lead:	**Debbie Middleton**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Manager*** ***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 31 March 2017

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

Communities making Havering	[]
Places making Havering	[]
Places making Havering	[]
Connections making Havering	X

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the fourth quarter to 31 March 2017. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, State Street Global Services Performance Services PLC (formerly known as WM Company) Quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the fourth **quarter** to 31 March 2017 was **3.7%.** This represents an outperformance of **1.5%** against the combined tactical benchmark and represents an outperformance of **1.3%** against the strategic benchmark.

The overall net return of the Fund's investments for the financial **year** to 31 March 2017 was **17.1%.** This represents an outperformance of **4.0%** against the combined tactical benchmark and an under performance of **-3.7%** 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 set out in paragraphs 1.2 and 1.3 below.

We measure the individual managers' annual return for the new combined tactical benchmark and these results are shown later in the report.

RECOMMENDATIONS

That the Committee:

1) Notes the summary of the performance of the Pension Fund within this report.
2) Considers Hymans performance monitoring report and presentation (Appendix A).
3) Receive a presentation from the Fund's Multi-Asset Manager (GMO Global Real Return).
4) Considers reviewing the reporting arrangements for the Fund (section 2 refers).
5) Considers the quarterly reports provided by each investment manager.
6) Considers any points arising from officer monitoring meetings (section 4 refers).
7) Notes the analysis of the cash balances (paragraphs 3.2 refers).

REPORT DETAIL

1. Background

1.1 **Strategic Benchmark** - A strategic benchmark has been adopted for the overall Fund of Index Linked Gilts + 1.8% per annum. This is the expected return in excess of the fund's liabilities over the longer term. The strategic benchmark measures the extent to which the fund is meeting its longer term objective of reducing the funds deficit. The current shortfall is driven by the historically low level of real interest rates which drive up the value of index linked gilts (and consequently the level of the fund liabilities).

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

1.3 The objective of the Fund's investment strategy is to deliver a stable long-term investment return in excess of the expected growth in the Fund's liabilities. Whilst mechanisms such as hedging could have served to protect the fund against falling interest rates in the short-term, such strategies are not commonly employed within the LGPS. The Fund has retained investments with Royal London which have offered some resilience to the fluctuations in interest rates, but given the long term nature of the fund, the Fund's investment advisers believe that the 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, lower realised inflation over recent years means that the actual benefit cash flows expected to be paid from the fund will be lower than previously expected although the fund's liabilities remain subject to changes in future inflation expectations.

1.4 Following the results of the 2016 Valuation and in line with regulations the Committee developed a new Investment Strategy Statement (ISS) which replaced the Statement of Investment Principles (SIP). During the last quarter of 2016/17 some fund rebalancing and short term changes as set out in the ISS was undertaken to bring the asset allocation closer to their benchmark.

1.5 The revised asset allocation targets are shown in the following table and reflect the asset allocation split and targets against their individual fund manager benchmarks:

Table 1: Asset Allocation

Asset Class	**Target Asset Allocation (ISS Jan 17)**	**Investment Manager/ product**	**Segregated /pooled**	**Active/ Passive**	**Benchmark and Target**
UK/Global Equity	15.0%	LCIV Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	7.5%	State Street Global Asset	Pooled	Passive	FTSE All World Equity Index
	7.5%	State Street Global Asset	Pooled	Passive	FTSE RAFI All World 3000 Index
Multi Asset Strategy	12.5%	LCIV Baillie Gifford (Diversified Growth Fund)	Pooled	Active	Capital growth at lower risk than equity markets
	15.0%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5%

Asset Class	Target Asset Allocation (ISS Jan 17)	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
Absolute Return	15%	LCIV Ruffer	Pooled	Active	Absolute Return
Property	6%	UBS	Pooled	Active	IPD All balanced (property) Fund's median +
Gilt/Investment Bonds	19%	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	2.5%	No allocation			

*0.75% prior to 1 November 2015

1.6 UBS, SSgA and GMO manage the assets on a pooled basis. Royal London manages the assets on a segregated basis. Both the Baillie Gifford mandates and the Ruffer mandates are managed on a pooled basis and operated via the London Collective Investment Vehicle (LCIV). Performance is monitored by reference to the benchmark and out performance target as shown in the above table. Each manager's individual performance is shown later 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).

2. Reporting Arrangements

2.1 Current reporting arrangements are that 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, Ruffer and GMO) 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.

2.2 The Department of Communities and Local Government (DCLG) Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS) issued September 2016 relaxed the regulatory framework for scheme investments which also included the relaxation on reviewing investment manager performance.

2.3 In light of the above guidance it is proposed that the Committee consider reviewing the current reporting arrangements. Officers propose that only one fund manager will attend each committee meeting and the Committee meet each manger once in a reporting cycle. The Fund currently has five mangers that they would meet:

GMO
London CIV/Ruffer
Royal London
UBS
SSgA

2.4 Based on the current fund manager numbers and the planned quarterly committee cycle then the Committee would see each manager every 15 months. This will enable the Committee more time to focus on investment strategy development. However if there are any specific matters of concern to the Committee relating to any managers performance, arrangements can be made for additional meetings with those managers.

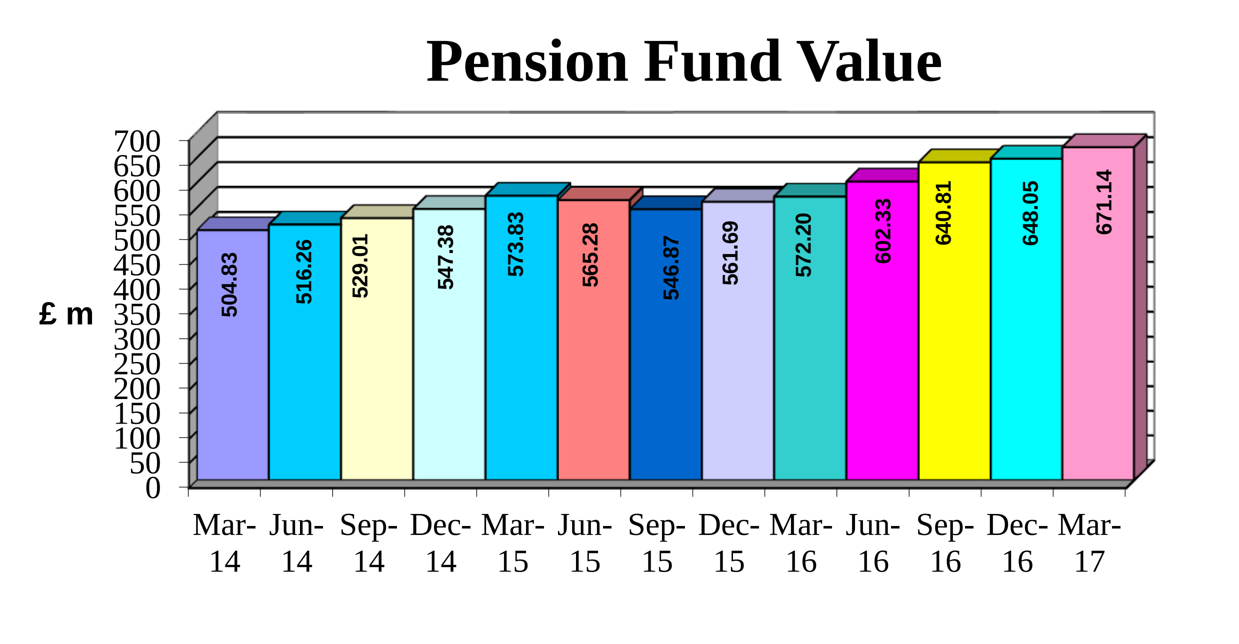
2.5 It is also proposed to cease the officer meeting with fund managers in order to free up time to implement the strategy set by the Committee. However, if there are any specific matters of concern relating to any managers performance, arrangements will be made for additional meetings with those managers.

2.6 Officers have discussed the content of Hymans quarterly reports. Members views and comments are also invited. .

2.7 Hyman’s performance monitoring report is attached at Appendix A.

3 Fund Size

3.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 31 March 2017 was **£671.14m**. 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 £648.05m at the 31 December 2016; an **increase** of **£23.09m**. The movement in the fund value is attributable to an increase in assets of £23.46m and a reduction in cash of (£0.37m). The internally managed cash level stands at **£1300m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

3.2 An analysis of the internally managed cash balance of **£13m** follows:

Table 2: Cash Analysis

CASH ANALYSIS	**2014/15 31 Mar 15**	**2015/16 31 Mar 16**	**2016/17 31 Mar 17**
	£000's	£000's	£000's
Balance B/F	**-5,661**	**-7,599**	**-12,924**
Benefits Paid	33,568	35,048	36,409
Management costs	1,600	1,754	781
Net Transfer Values	-135	518	2,216
Employee/Employer Contributions	-35,306	-42,884	-39,977
Cash from/to Managers/Other Adj.	-1,618	306	586
Internal Interest	-47	-67	-91
Movement in Year	**-1,938**	**-5,325**	**-76**
Balance C/F	**-7,599**	**-12,924**	**-13,000**

3.3 Members agreed the updated cash management policy at its meeting on the 15 December 2015. The policy sets out that the target cash level should be £5m but not fall below the de-minimus amount of £3m or exceed £6m. This policy includes drawing down income from the bond and property manager when required.

3.4 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 (now the Statutory S151 officer) to exceed the threshold to meet unforeseeable volatile unpredictable payments. The excess above the threshold of £6m is being considered as part of the investment strategy review and awaiting the outcome of the independent review.

4. Performance Figures against Benchmarks

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

Table 3: Quarterly Performance

	Quarter to 31.03.17	**12 Months to 31.03.17**	**3 Years to 31.03.17**	**5 years to 31.03.17**
	%	**%**	**%**	**%**
Fund	3.7	17.1	9.4	9.9
Benchmark	2.2	12.6	8.4	8.5
*Difference in return	1.5	4.0	0.9	1.3

Source: WM Company

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

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

Table 4: Annual Performance

	Quarter to 31.03.17	**12 Months to 31.03.17**	**3 Years to 31.03.17**	**5 years to 31.03.17**
	%	**%**	**%**	**%**
Fund	3.7	17.1	9.4	9.9
Benchmark	2.3	21.7	14.9	10.7
*Difference in return	1.3	-3.7	-4.8	-0.8

Source: WM Company

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

4.3 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.

Table 5: QUARTERLY PERFORMANCE (AS AT 31 MARCH 2017)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	%	%	%	%
Royal London	2.85	2.34	**0.50**	2.65	**0.20**
UBS	1.62	2.03	**-0.41**	n/a	**n/a**
GMO	4.19	0.55	**3.64**	n/a	**n/a**
SSgA Global Equity	5.76	5.77	**-0.01**	n/a	**n/a**
SSgA Fundamental Index	4.19	4.23	**-0.04**	n/a	**n/a**
LCIV/Ruffer*	0.00	0.00	**0.00**	n/a	**n/a**
LCIV/Baillie Gifford (DGF)*	2.83	0.00	**2.83**	n/a	**n/a**
LCIV/Baillie Gifford (Global Alpha Fund)	7.60	5.37	**2.23**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- * Absolute Return and not measured against a benchmark

Table 6; ANNUAL PERFORMANCE (LAST 12 MONTHS)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	%	%	%	%
Royal London	16.81	16.28	**0.53**	17.53	**-0.72**
UBS	3.33	3.75	**-0.42**	n/a	**n/a**
GMO	6.54	1.70	**4.84**	n/a	**n/a**
SSgA Global Equity	32.95	33.04	**-0.09**	n/a	**n/a**
SSgA Fundamental Index	36.05	36.21	**-0.16**	n/a	**n/a**
LCIV/Ruffer*	n/a	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (DGF)*	10.35	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (Global Alpha Fund)	n/a	n/a	**n/a**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- Ruffer not invested for entire period (inception LCIV 21/06/16)
- Baillie Gifford Global Alpha not invested for entire period (inception LCIV 11/04/16)
- * Absolute Return and not measured against a benchmark

5. Fund Manager Reports

In line with the current reporting cycle, brief overviews are included in this section unless the fund manager met with officers in between committee meetings.

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

a) Officers last met with representatives from Royal London on the 11 May 2017 at which a review of their performance as at 31 March 2017 was discussed.

b) The value of the fund as at 31 March 2017 has reduced by -£10.95m since the December quarter. This was mainly due to a transfer out of £15m in February 2017 from the Royal London mandate to the London CIV Ruffer mandate. This transfer was carried out in accordance with the Committee's decision to rebalance the fund's asset allocation at the Special Pensions Committee on the 23 January 2017.

c) Royal London disinvested in proportion across all the asset classes to stay within the portfolio benchmark.

d) Royal London delivered a net return of 2.85% over the quarter, outperforming the benchmark by 0.50%. The mandate is ahead of the benchmark over the year by 0.53% and 0.57% since inception.

e) The relative fund performance over the quarter was principally a result of asset allocation, holding an underweight position in government debt. Exposure to the Royal London Sterling Extra Yield Bond was also positive to performance. Corporate Bonds and stock selection was also positive for performance.

f) Overall short duration maintained over the quarter had a negative impact on performance.

g) Royal London held a preference for index linked bonds versus conventional government bonds.

h) Beneficial to performance in corporate bonds was holding an overweight position in financials and a bias towards secured and structured sectors and being underweight in consumer sectors and supranationals.

i) Given current yields on sub investment grade bonds Royal London explained when asked about their exposure to the Extra Yield Fund that they are looking to take profit from these holdings and reduced positions in this quarter and will again during the next quarter.

j) Royal London was asked if the decision not to hold a material allocation to overseas bonds (currently 0.2%) was driven by their view on currency movements. Royal London's hedges the currency to avoid the currency risk so this has no impact but do not believe that developed market government bonds to be expensive and expects them to rise over the next 18 months.

5.2. Property (UBS)

a) In accordance with agreed procedures officers will meet with representatives from UBS once in the year with the other meeting to be held with members.

b) Officers last met with representatives from UBS on the 24 August 2016 at which a review of their performance as at 30 June 16 was discussed. UBS made a presentation to the Committee in March 2017 which covered their performance to the quarter ending 31 December 2016. A brief overview of their performance as at 31 March 2017 follows.

k) The value of the fund as at 31 March 2017 increased by £5.59m since the December quarter. This was mainly due to the transfer in of £5m from the SSgA Sterling Liquidity Fund during February 2017. This transfer was carried out in accordance with the Committee's decision to rebalance the fund's asset allocation at the Special Pensions Committee on the 23 January 2017.

c) UBS delivered a net return of 1.62% over the quarter, under performing the benchmark by -0.41%. The mandate is behind the benchmark over the year by -0.42% and behind by 2.15% over 5 years.

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

a) In accordance with agreed procedures officers will meet with representatives from GMO once in the year with the other meeting to be held with members.

b) Officers last met with representatives from GMO on the 3 November 2016, at which a review of their performance as at 30 September 16 was discussed. GMO last met with the members of the Pension Committee on the 13 December 2016 at which they covered the period ending up to 31 October 2016. GMO are now due to present at this committee meeting to discuss their performance to 31 March 2017 so a brief overview of their performance follows.

c) The value of the fund has increased by £4.13m since the December quarter.

d) GMO have outperformed their benchmark over the 3 month and 12 month but have underperformed since inception:

Table 7:GMO performance

	3 Months	12 Months	Since inception (13 Jan 2015)
	%	%	%
Fund	4.19	6.54	0.87
Target CPI +5%	0.55	1.70	1.30
Relative to Target	3.64	4.85	-0.43

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

e) 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. GMO are two years into the 7 year cycle and believes that if current market conditions continue then GMO feel that CPI +2-3% is more achievable.

f) Hymans has improved the ratings of this manager to ‘Retain’ from the previous rating of ‘On Watch’ following positive meetings with their investment team.

5.4. Passive Equities Manager (SSgA)

a) In accordance with agreed procedures officers will 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 13 December 2016 at which they covered the period ending up to 30 September 2016. Officers met with representatives from SSgA on the 11 May 2017 at which a review of their performance as at 31 March 17 was discussed.

b) The SSgA mandate was split into three components, Sterling Liquidity sub fund, SSgA All World Equity Index sub fund, and the Fundamental Index Global Equity sub fund. The Sterling Liquidity fund was reduced to zero with £5m being transferred to UBS in February 2017 and the balance of £1.2m transferred to London CIV Ruffer account in March 2017. This transfer was carried out in accordance with the Committee’s decision to rebalance the fund’s asset allocation at the Special Pensions Committee on the 23 January 2017.

c) The value of the two mandates within the fund has reduced by £1.68m in total since the last quarter.

d) As anticipated from an index-tracking mandate SSgA has performed in line with the benchmark over the latest quarter, although there is some underperformance on the Fundamental Index. SSgA explained that the stocks change quarterly so the time lag causes this slight difference

e) SSgA were asked if they had undertaken any work in developing equity strategies that mitigate carbon risk exposure and whether they are looking to adopt low carbon products. SSgA were unable to answer the question at the meeting so they will be sent the question in an email for them to respond. SSgA will also send us a copy of their ESG framework.

f) In response to a question regarding engagement with companies over the last six months SSgA said that they would send us the relevant documents to show what they had done. Although SSgA were unable to identify this at the meeting they do send us quarterly reports on their voting activities

5.5. Multi Asset Manager – London CIV (Ruffer)

a) This mandate transferred to the London CIV on 21 June 2016.

b) Since the transfer the London CIV will oversee the monitoring and review of the performance of this mandate. However Ruffer has stated that they are happy to continue with the existing monitoring arrangements and meet with officers and the Committee to report on its own performance. The London CIV quarterly manager review meetings have largely taken place and the review notes are currently being compiled and will be distributed to members when these are available.

c) Ruffer last met with the members of the Pension Committee on the 20 September 2016 at which they covered the period ending up to 30 June 2016. Officers met with representatives from Ruffer on the 31 January 2017 at which a review of their performance as at 31 December 16 was discussed.

d) The value of the fund as at 31 March 2017 increased by £16.16m on the previous quarter. This was mainly due to a transfer in of £15m from the Royal London mandate in February 2017 and £1.2m from SSgA in March 2017 to the London CIV Ruffer mandate. This transfer was carried out in accordance with the Committee’s decision to rebalance the fund’s asset allocation at the Special Pensions Committee on the 23 January 2017.

e) Since the mandates transfer to the London CIV Ruffer delivered a return in line with the benchmark over the quarter and 11.5% since inception with the London CIV. The mandate is an Absolute Return Fund (measures the gain/loss as percentage of invested capital) and therefore is not measured against a benchmark. Capital preservation is a fundamental philosophy of the Fund.

5.6. UK Equities - London CIV (Baillie Gifford Global Alpha)

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

b) Since the transfer the London CIV will oversee the monitoring and review of the performance of this mandate and representatives from the London CIV met with the Committee on the 13 December 2016. An overview of performance as at 30 September 2016 for mandates within the London CIV was discussed.

c) The London CIV quarterly manager review meetings have largely taken place and the review notes are currently being compiled and will be distributed to members when these are available.

d) The value of the Baillie Gifford Global Equities mandate fund increased by £7.92m over the last quarter.

e) The Global Alpha Fund delivered a return of 7.60% over the quarter, outperforming the benchmark by 2.23%. Since inception with the London CIV the fund returned 35.00% outperforming the benchmark by 2.41%.

5.7. Multi Asset Manager – London CIV (Baillie Gifford Diversified Growth Fund)

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

b) Since the transfer the London CIV will oversee the monitoring and review of the performance of this mandate and representatives from the London CIV met with the Committee on the 13 December 2016. An overview of performance as at 30 September 2016 for mandates within the London CIV was discussed.

c) The London CIV quarterly manager review meetings have largely taken place and the review notes are currently being compiled and will be distributed to members when these are available.

d) The value of the Baillie Gifford DGF mandate increased by £2.29m over the last quarter.

e) The Diversified Growth mandate delivered a return of 2.83% over the quarter and 14.76% since inception with the London CIV. The Sub-fund's objective is to achieve long term capital growth at lower risk than equity markets and therefore is not measured against a benchmark.

6. 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.

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 manager attending the meeting will be from:

  GMO

- 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

None

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Agenda Item 6

Havering
LONDON BOROUGH

PENSIONS COMMITTEE
15 June 2017

Subject Heading:	The Future of the Pensions Administration Service
SLT Lead:	Jane West, Managing Director oneSource
Report Author and contact details:	Sarah Bryant Director of Exchequer & Transactional Services 01708 432434
Policy context:	Provision of the Pensions Administration Service
Financial summary:	The preferred option is expected to deliver savings In the region of £76,900 to the Pension Fund over a 5 year period and achieves a more resilient pensions administration service for the long term, avoiding over-reliance upon expensive temporary staff. This may create a pressure on the General Fund to the extent that savings are realised from the reduction of support service recharges that are chargeable from the General Fund to the Pension Fund. Any General Fund pressure will be mitigated through the negotiation of accommodation fees with LPP in respect of their team occupying Havering office space.

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

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

SUMMARY

1. This report sets out proposals and options for the future provision of the Pensions Administration Service for the London Borough of Havering.

RECOMMENDATIONS

2. Refer this report and the following recommendations to Full Council to give effect to the proposal to delegate the Pensions Administration Service detailed in appendix 1 to Lancashire County Council.

2.1 Council is asked to agree Option 4, (subject to agreement by Lancashire County Council) that Havering Council enter into an arrangement under section 101 of the Local Government Act 1972 for the discharge by Lancashire County Council of the functions of Havering Council in respect of pensions administration from 1st October 2017 for a rolling annual period.

2.2 Council is asked to delegate to the Managing Director of oneSource authority, after consultation with the Cabinet Member for Financial Management, to agree the final terms of the arrangements with Lancashire County Council and incorporate those into an agreement subject to those terms being in the best interests of Havering Council.

2.3 Delegate to the Managing Director of oneSource, after consultation with the Cabinet Member for Financial Management, power to consider any consultation required and consider the Equality Impact Assessment and make any changes she considers necessary in order to give effect to the arrangements proposed in these recommendations.

2.4 Council is asked to agree the recruitment of a Projects and Contract Manager. And to note that over a 5 year period, the total cost of the service to the Pension Fund is estimated to decrease by £76,900 and will deliver a robust and resilient and future proofed service. This will include the recruitment of a Projects and Contract Manager for Havering at annual cost of up to £57,791 to be funded by the Pension Fund budget.

2.5 Note that project implementation costs of the new arrangements will be £78,240 to be financed from the Pension Fund budget.

REPORT DETAIL

3. **Background**

3.1 The provision of the Local Government Pension Scheme (LGPS) is a statutory function of all local authorities in England and Wales. In recent years there have been a series of legislative changes to the LGPS rules, making the service significantly more complex to administer and it is now considered to be highly specialised function.

3.2 Havering's pension fund currently has around 18,990 members. This comprises up to 6,323 actives, 6,545 deferred, 6,122 pensioners and has 38 employers in the scheme. The system is provided by Heywoods, which is one of the systems used nationally for pension administration. The oneSource payroll service process the pensioner's payroll.

3.3 The London Borough of Havering has had a very traditional approach to providing the LGPS pensions administration via an in house team. However in recent years it has become extremely difficult to recruit and retain skilled, knowledgeable and experienced staff.

3.4 Due to retirements and staff leaving over the past two years, the team has reduced in permanent staff to three fte (full time equivalent) with a huge reliance on temporary staff. This has subsequently resulted in a review of options for service provision as the current arrangements are not sustainable or resilient and do not represent value for money. The service also needs to be improved by having skilled, experience staff to focus on providing an accurate, efficient service that can adapt to change and business priorities. The resilience of the team needs to be strengthened to provide functions such as technical development, information and case management, performance data, employer engagement and communications etc The capacity and capability to undertake improvement projects and reviews such as the provision of the AVC scheme, Members Self Service etc also needs to be developed.

4. **Havering's current service delivery**

4.1 The Pension Administration Service which relates to the administration of the scheme not the investment side is 90% funded by the Pension Fund to the value of £0.423m. The total 2016/17 budgeted cost of the Pension Administration Service was £0.471m; the split between controllable and non-controllable costs (internal recharges) was £0.406m and £0.065m respectively. Due to the resignations and retirement of a number of key staff the team currently comprises three permanent fte, (one Team Lead and three Specialist Senior Pensions officers). It has been extremely difficult to recruit skilled staff therefore there is a reliance on temporary resources including an Interim Pensions Manager (via a secondment arrangement with Local Pensions Partnership (LPP)).

4.2 The team ensure the core pension administration processes are performed for LBH. These are shown in Appendix 1.

5. **Havering's Requirements**

5.1 Along with the core administration process, the key business requirements for Pensions Administration are:-

- provision and maintenance of accurate and complete data sets and information
- provision of a robust and resilient service to its members
- guidance and support to implement new government legislation and new processes
- development of robust customer relationships with employers and members
- review the processes and procedures in the service to avoid duplication to eliminate waste
- provision of effective, accurate management information and business intelligence to shape the service to provide value for money
- reduction of manual input to reduce errors and maximise efficiency
- provision of robust technical expertise that can be utilised to improve the service
- engagement with scheme members and employers to enable legislative changes to be considered and adhered to
- provision of self-service to enable members to access information
- exploiting IT and the digital agenda to provide easy use and access to information for the team and members and ensure data consistency and accuracy

6. **Pensioner's Payroll Processing**

6.1 The pensioner's payroll is processed by the Havering Payroll Service and currently has 5,870 members being paid on a monthly basis. A recharge to the pension fund covers the cost of providing this service. The annual recharge for 2017/18 is £40,000.

7. **Options Appraisal**

7.1 Market research shows that currently 90% of Councils use an in-house or collaborative intra-authority approach to service provision with 10% using the private sector providers.

7.2 Market Intelligence was gathered to understand the options currently available in the market. Having considered the information and to deliver a sustainable Pensions Administration Service along with developing the capacity and capability to manage business as usual, improve services, there are five key options available:

7.3 **Option 1 – Restructure and Recruit to the existing Pensions Administration Team and continue to employ temporary staff via Agency contracts** (status quo)

7.3.1 Recruitment of permanent staff has proved extremely difficult and the temporary market has not provided the relevant skilled staff, at an affordable, competitive cost. Selecting this option does not allow resilience to be built for the service. At present there are three temporary workers employed via the Adecco agency and specialist recruitment agencies, and two secondment arrangements from LPP, with the costs for employing these staff above the average salaries. Other disadvantages include limited resources to implement changes, limited technical and IT and development knowledge and no ability to deal with peak volumes of work restructures etc. This leaves the Service extremely vulnerable, open to risk of failure and is also not cost effective or efficient.

7.4 **Option 2 - Work in partnership with another local authority with LBH retaining the Service**

7.4.1 Currently there is no appetite from other London Boroughs to establish a shared partnership approach, and many have moved to the arrangement as set out in option 3 and 4. This option has previously been explored with The London Borough of Redbridge and was abandoned due to the lack of benefits of system integration, service resilience or value for money.

7.5 **Option 3 – Norfolk County Council Framework Agreement**

7.5.1 Norfolk County Council has developed a framework which has four providers of pensions administration services available. The four providers are:-

1. Surrey County Council (ORBIS)
2. Capita Employee Benefits Ltd
3. West Yorkshire Pension Fund
4. Paymaster (1836) Ltd (Equiniti)

7.5.2 Provider costs (commercially sensitive and confidential) have been analysed along with the provider in Option 4 (LLP). Details can be seen in Appendix 2.

7.5.3 Apart from costs there are advantages and disadvantages of service provision from each provider. All providers work across multiple local authorities, but not all have

Authorities in London as customers. Appendix 2 includes details of services available.

7.6 **Option 4 – Engage through a delegated arrangement (Local Government Act 1972)**

7.6.1 Following market research, the main providers of this service, with a good track record and extensive experience, are the London Borough of Wandworth and Local Pensions Partnership (LPP). They are both set up as not-for-profit pension services organisations. This option is similar to outsourcing but negates the requirement of tendering.

7.6.2 The providers were approached to provide costs for providing the service to LBH. The London Borough of Wandsworth declined as they are currently not increasing their customer base.

7.6.3 Lancashire County Council (Lancashire County Pension Fund) and the London Pensions Fund Authority (LPFA) brought together the executive functions of their pension funds within a joint-venture structure referred to in this report as LPP. They currently provide pensions administration for London Borough of Newham and London Borough of Bexley as well as other Councils. The London Borough of Newham pension administration management responsibility falls within the remit of oneSource.

7.6.4 LPP provide pensions administration in the public sector. They have circa 150 staff dedicated to working in pension administration, of whom around 120 are focused on the LGPS, with others working on the various "blue light" pensions schemes. They have the capacity and capability to direct resources to address particular priorities and change. Appendix 2 shows the costs and services compared with the providers in Option 3.

7.7 **Option 5 – Outsource via a full Procurement and tender process**

7.7.1 The advantages and disadvantages are similar to option 4 but would involve a lengthy process and may incur considerable procurement and legal costs. The supplier company will also be looking to make a profit. Current providers include Capita, Liberata, Xafinity and Kier. Upon investigation private providers are losing many of its clients to the providers such as LPP, Wandsworth and Orbis as costs made are invested in improvement and development of the service or given back to the clients.

8. **Preferred Options**

8.1. Having reviewed and considered the available options and in discussion with the S151 Officer, the preferred route for the future of the Pension Administration Service is Option 4 – Local Pensions Partnership (LPP). It is anticipated that this will take effect on 1st October 2017 or shortly thereafter once the legal agreement has been agreed.

8.2 This option provides greater resilience to the Havering Pensions Administration Service. It also provides additional functions as LLP have access to wider skills and knowledge specifically for IT and system development, case management and managing the employer function through effective engagement and communication. They will also work closely with Havering to ensure that any future business demands and pressures are anticipated and actioned. The advantages of this option are:

- Avoidance of cost increase and escalation due to lack of availability of specialist skills in the market.
- Increased resilience of service provision due to access to skills, knowledge, experience and people.
- Potential long term efficiencies due to economies of scale.
- Expertise and dedicated teams for the management of LGPS
- Availability of technical expertise to improve the service and customer engagement.
- Provision of effective communications – pooling of resources, dedicated role for standardised quality documentation.
- Ability to offer specialist training to staff and clients.
- Shared project costs.
- Risk Management to manage all aspects on new and ceasing employers (e.g. multi-academy, trusts, academies, bulk transfers and small businesses).
- Providing accurate, up to date information via multiple channels including self-service.
- Improved ability to manage peaks and troughs of workflows and direct resources where appropriate.
- Potential to offer an improved service to members due to capacity and capability to respond to change.
- Potential to exploit and develop to better meet the Councils and members needs.
- Access to technical expertise including business continuity, risk analysis and disaster recovery planning in place.
- Proven track record working for other London Boroughs and Councils e.g. London Borough of Bexley, London Borough of Newham.

8.3 The risks and issues of this option are:

- Risks to system and data Migration are minimised as LPP use same systems as LBH.
- Robust contract management required to ensure the service is enhanced and the recruitment of a Contract Manager who is skilled in Pensions Administration legislation and contract management will be crucial to the success of the arrangement. It is planned to advertise this role in line with TUPE arrangements to minimise the impact on staff and mitigate any risks to service continuity.
- Develop and build on existing arrangements with the London Borough of Newham to provide resilience.
- TUPE of existing staff which will be mitigated as it is not planned to relocate staff – LPP are seeking a base in Romford and the London Borough of Havering have offered space (creating an opportunity to generate income).

8.4 To implement this option, the London Borough of Havering would be required to set up a delegation arrangement via Lancashire to enable them to deliver the service under the Local Government Act 1972.

8.5 Any surplus income generated by LPP will, after provision for necessary investment, be returned to customers through a rebate mechanism. This ensures that no greater sum than is necessary is taken from pension funds to pay for the administration.

8.6 As the LPP already provide a proven efficient and effective pensions administration service for the London Borough of Newham, it will also assist management within oneSource to have a single provision of the pensions administration service and maximise the resources available. Projects and on-going improvements can also be funded and shared across the two Councils. Therefore LPP is recommended as the service provider for LBH.

8.7 This option will also provide the access to wider services with the capacity and capability to undertake project work such as, review of Additional Voluntary Contribution (AVC) scheme, adherence to Guaranteed Minimum Pension (GMP). This will be at an additional cost to the arrangements and will be determined and delegated to the S151 Officer via business cases.

8.8 Whilst it is a statutory requirement to tender a contract and Procurement have advised that the market could be tested in this way, however Procurement and Legal Services have agreed that the Pensions Administration Service can be delegated to Lancashire County Council under S101 of the Local Government Act 1972.

8.9 In addition Havering will need to recruit a Projects and Contracts Officer to ensure LPP are delivering the expected service and be able to liaise with employers and members and support the Pensions Board. A job profile has been established using the Councils Job Evaluation Scheme (see Appendix 3).

8.10 Within option 4 there is also the option for LPP to process the pensioner's payroll via the Heywoods Payroll module which fully integrates and therefore reduces duplication of input to process pensioner payments. This option will be considered once the Pensions Service is fully operational with LPP. Pensioners will also have access to Member Self Service (MSS) to view their payslips each month. At present oneSource payroll only produces a payslip every April, May and October, or if the net pay varies more than £5 from the previous month.

9. Financial Information – Exempt Information

IMPLICATIONS AND RISKS

10.1 This report proposes to transfer the Local Government Pension Scheme administration service from the Council to the LPP. It should be noted that this does not include the pension payroll service which will continue to be operated through the oneSource partnership.

10.2 The current cost of the pension administration service is £0.470m of which 90% (£0.423m) is funded through the Havering Pension Fund and the 10% from the General Fund in relation to activities of the employer authority. The 10% will be retained by the Council via oneSource and will not transfer under the new arrangement and will therefore continue to be met by the General Fund.

10.4 The cost of implementation for the transfer from the Council, via oneSource, to the LLPP is £0.078m which covers the cost of the data migration and associated project management along with system licences. TUPE will apply for the current staff and therefore any cost of redundancy or pension strain costs arising from this change in service delivery model will be funded from the transformation budget held corporately.

10.5 The proposed new delivery model is estimated to cost £2.238m over five years to 2021/22, an additional cost of £0.213m compared with the directly controllable budget for existing arrangements. However, potential savings in internal recharges of £0.290m are anticipated, resulting in an overall saving to the Pension Fund over the 5 years of £0.077m. The annual increase cost/savings are set out in the table at 9.5. As set out in paragraph 9.7, it is possible that the reduction in the recharge of support services to the Pension Fund will result in a cost pressure to the General Fund. However, officers will seek to minimise this impact through the negotiation of accommodation charges to LPP. The new arrangement will provide greater business continuity and service resilience to manage the risks of the current service model contained within the main body of the report.

11. Legal implications and risks:

11.1 LBH has power to make arrangements for the discharge of its Council functions under s101 of the Local Government Act 1972 by another authority**.**

11.2 The arrangement for discharge will need to be accepted by the authority carrying out those arrangements which decision will be on the basis of a report mirroring that from LBH.

11.3 As any such arrangements can in law be revoked without notice by either party the arrangements proposed will have to be the subject of an agreement between the two authorities, this agreement will detail such matters as notice period who clients the arrangements from LBH and payments for services.

11.4 Section 101(4) allows the delegating authority to continue to exercise the functions if it so wishes.

11.5 Such arrangements will be outside the scope of the Public Contracts regulations 2015 which would normally require the tendering of such a service, but as a best value authority LBH will still have to demonstrate that this represents value for money.

11.6 Any staff currently undertaking the work to be transferred may be subject to TUPE as detailed below in para 12.

11.7 An Equality Impact Assessment (EIA) will need to be completed and considered prior to implementing the decision.

12 Human Resources implications and risks:

12.1 Option 4 will require the 4 existing staff (equivalent to 3 fte) to be transferred to LPP. It is highly likely that the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) will apply to this transfer. Full consultation will be carried out with staff with support from HR OD. LPP have confirmed that they will have a base in Romford so there will be no requirement to re-locate staff. Staff in scope of the transfer will also be invited to apply for the new position of Projects and Contracts Officer.

13. **Procurement implications:**

13.1 As a best value exercise has been carried out against the Norfolk County Council Framework Agreement and as the 1972 Local Government Act allows Havering to enter this arrangement, the framework shows there is a market for this service but the vfm exercise makes it reasonably risk free to enter the LGPS pension scheme.

14 Equalities implications and risks:

14.1 An EIA will be undertaken and shared with the affected employees as part of the TUPE consultation and information process.

Appendix 1

Core Pensions Administration Processes

- Ensuring compliance with scheme and other relevant regulatory requirements; including implementation of any developments arising from legislative change or improvements in functionality and member and employer engagement.
- Liaising with external bodies, including the Government Actuary's Department, and the Pensions Regulator, and keeping Havering informed of the general implications of legislative, social, political and economic change.
- Providing information in compliance with overriding statutory requirements, in particular the Occupational Pension Schemes (Disclosure of Information) Regulations.
- Providing data on membership of the schemes under administration in an agreed format, including in respect of:
    - FRS17 / IAS 19 on an annual basis;
    - Central Government requirements;
    - External and Internal Audit requirements, and,
    - National Fraud Initiative requirements.
    - Triennial valuation data submissions
- Receiving contribution data, maintaining member records and recording data in relation to each active member on a monthly 'real-time' basis, to ensure that accurate data is continually available.
- Producing Annual Benefit Statements for active and deferred members.
- Handling routine member enquiries.
- Developing and maintaining a website containing comprehensive pension related policy and process, including new starter information and documentation, scheme guidance and a comprehensive employer guide.
- Developing and maintaining a self-service portal for all members.
- Providing a full range of active and deferred member services, including record maintenance, transfer processes, implementation of Pension Sharing Orders, and generating various types of estimate, including redundancy/efficiency, retirement estimates, member estimates, bulk HR requests and Annual Benefit Statements and general correspondence processes.
- Working forward developing members self-service to direct members to on-line information.

- Calculating benefits (up to the point of payment), including in respect of all retirement benefits and 'death in service' lump sums (and deferred benefits) in accordance with the relevant rules, members' options and statutory limits, in response to an agreed notification.
- Calculating widow and widower benefits following the death of a pensioner.
- Resolve any audit queries which arise.
- Calculating payment of refunds of pension contributions, including deducting statutory amounts in accordance with HM Revenue and Customs (HMRC) and the Department of Work and Pensions' regulations.
- Calculation and information in respect of HMRC's Lifetime and Annual allowance limits, including implementation of the 'Scheme Pays' option.

Employer risk management function will include:

- Ensure that the Fund's Admissions Policy is kept fully up to date in line with LGPS Regulations and other key legislation.
- Present to the Pensions Committee any deviations from the Admissions Policy.
- On boarding of new employers

The employer admission process includes:

- Collate data and advise employers on key requirements under Havering's admission policy, including eligibility to join the LGPS.
- Arrange for the actuary to calculate the employer contribution rate payable by the new admission body.
- Send the actuarial report to the employer and liaise with the admitted body and Legal to ensure that the admission and bond agreements are in line with Pensions Committee.
- Arrange for the relevant Havering officer to approve admission to the fund.
- Arrange to visit new organisations, including schools and academies, to advise them of requirements and responsibilities.
- Monitor monthly submissions together with payment receipts received in the pension fund account (if required).

The employer cessation process includes:

- Monitor employer numbers on a quarterly basis to ensure that employers have not closed to future accrual or ceased without informing Havering.

- On notification by the admitted body that they are ceasing participation in the fund, compile data and cash flows and request the actuary to compile a cessation report.

- Issue the cessation report to the employer and recover any cessation shortfall. Advise the relevant Havering officer of any ongoing issues.

EXEMPT INFORMATION - Appendix 2

Appendix 3

oneSource
supporting public services

Working on behalf of

Havering
LONDON BOROUGH

Working on behalf of

Newham London

Pension Projects and Contract Manager

Grade: PO5 – Newham Grade
Grade 8 – Havering Grade

Location – Havering & Newham. The post holder must be flexible and work across sites in both Councils.

Accountable to:	Head of Transactional People Services
Accountable for:	• Manage the contract to provide an efficient and effective value for money Pensions Administration Service. • Effective management of projects such as Triennial Review, AVC scheme, GMP, policy review etc. • Identify improvements and changes to the Council's and Pensions Service and work with the contractor to implement change effectively. • The management of scheme employers meet statutory/regulatory requirements in partnership with the pension administration contractor including communication and engagement on current schemes and future changes. • The postholder may also represent Council's Exchequer & Transactional Services (E&TS) on external bodies including professional groups. • Ensuring the contractor has all admission agreements and bonds or other security as applicable in place prior to commencement of transfers of service provision. • Collection of accurate contributions on time, scheme employer deficits not falling back on the Fund/Council tax payers, the management of quality support given to senior management, delivery of key performance indicators and the management and mitigation of key business risks. • The correct calculation of all contractual and pensionable pay figures supplied by the Employers. • Provide advice and guidance to the Pension Boards.

Specific Responsibilities	**Contract Management** • Provide timely advice and information to strict deadlines to letting authorities/council services and to contractors considering whether to apply for admission to the Councils LGPS fund or set up or use a broadly comparable scheme in accordance with approved policy and legal requirements. • Ensure the Contractor has all admission body agreements and bonds or other security in place in accordance with the latest regulations and approved policy. Ensure control procedures are in place to implement them in relation to the operation of the LGPS, so that Council taxpayers are not called upon to underpin a contractor's pension liabilities in the event there is commercial failure during the life of the admission agreement or prior to collection of any exit payment. • Monitor and co-ordinate to conclusion any bulk transfers resulting from the admission or departure of an admission body to or from the Fund. • Facilitate the involvement of the Fund actuary at the start of the procurement process and the agreement of the letting authority or Council service to bear the cost of the actuarial fees incurred. • Establish administering authority criteria to establish whether letting authorities/Council services have adequate risk assessment procedures for determining the adequacy of bonds or indemnity arrangements with the Contractor. • Monitor letting authorities/council departments to ensure they are keeping under assessment the level of risks, even where these are negligible at the start of the contract, and the need for subsequent bonds and indemnity cover for admission bodies during the lifetime of the contracts with the Contractor. • Raise awareness that admission bodies must, as part of the admission agreement that they have entered into, notify the Council as the relevant administering authority of any changes in employment terms that could affect the Fund and of other matters detailed in the agreement. Facilitate review of contribution rates in the event of any material notifications. • Engage with new scheme employers to make them aware of the procedures and policies they must follow as a participating employer in the Fund, the formal process and deadlines for doing so and the penalties that will be applied if not met. • Facilitate the collation of details of staff that are likely to be transferred to the contractor or other service delivery arrangements to the Fund actuary and production of new and revised rates and adjustment certificates and levels of risk information where appropriate. • Take necessary action before and on termination of an admission agreement – facilitate actuarial valuation and collection of all outstanding and exit payments. • Formulate and maintain corporate risk registers relating to the management of admitted bodies with the Contractor. • Prepare reports and present to the Investment and Accounts Committee on all matters relating to admissions. • Establish a Communication Strategy and support employer engagement activities. • Ensure that estimations of benefits are produced by the contractor and that this information is passed onto relevant stakeholders. • Discuss estimates of benefits with employees/HR/management including any on-going costs to the authority and where necessary referring them to the contractor. • Agree contractual performance and pay invoices on due date to various bodies in connection with the contract. • Liaise and hold meetings with the internal and external stakeholders on pension issues when required. • Hold regular meetings with the contractor to ensure effective service provision that

	is in line with audit requirements. • Rectify any problems or complaints made by employees with regard to the service provided by the contractor. • Liaise with Actuaries regarding pension issues and provide information for Admission Agreements, Broad Comparability Studies, FRS17 and Valuation exercises. • Work with minimal supervision. • Obtain relevant information and feedback from Councils to ensure effective contract management. • Responsible for and support team members with 2nd Stage Pension Appeals and advise employees on benefits after liaising with the Pensions Contractor. To look at the decision process of the Stage 1 Appeal and respond accordingly. Preparation of paperwork for Stage 2 appeal for employee to progress to Ombudsman and advise Section 151 officer on the status. • Work alongside Internal Audit's Fraud section to assist with the annual National Fraud Initiative (NFI).Run reports from system to check for deceased and re employed pensioners on payroll and take appropriate action. • Responsible for the application and communication of the annual Pensions Increase awards to all pensioners. • Responsible for all monetary contributions from Admitted Bodies. Ensuring they are received, recorded and correctly allocated to the pension fund by the statutory due date • Responsible for monthly pension accounts regarding benefits paid to staff leavers and payments coming in to the fund regarding transfers, ensuring that all benefits are allocated to the correct cost centres. • Responsible for the information required for annual benchmarking and Freedom of Information requests. • Deliver reports for Pensions Committee, Pensions Boards and other relevant groups. **Projects** • Engage with stakeholders to ensure legislative pension requirements are implemented specifically regarding schools, academies, catering services, small businesses and outsourcing of services. • Effectively identify and manage projects and associated resources to implement improvements and changes to the pension services. • Develop PID's, determine tasks, guidelines and write update reports for new projects in pensions administration • Maintain a risk management programme for the Pensions Service as part of a comprehensive assurance framework in relation to the overall Pension Programme. • Proactively identify and recommend process improvements that increase efficiencies and enhance customer experience. • Support the transition of the scheme through legislative changes, including conducting Pension Seminars. • Promote, foster and sustain working relationships with associated and affected interest groups to progress the Pension Service's objectives and maintain a high standing with interested parties. • Advise and guide Pensions Board on appropriate issues and undertake relevant actions to resolve the queries. • Establish and deliver pre-retirement courses, seminars and workshops ensuring they are available for employees and employers.

	• Ensure that the contractor provides Human Resources and Payroll with the relevant information in the proper format and that the correct information is provided by oneSource to the contractor to ensure the administration can be carried out correctly. • Ensure that estimates of benefits are produced by the contractor and relevant information is passed onto Human Resources and employees. • Responsible for identifying improvements and managing projects to deliver agreed outcomes. • Support and assist Pensions Board by providing relevant information. • Deliver changes to Pensions Services that enhance and improve service delivery to customers and members. • Work with stakeholders, both internal and external, to ensure changes are assessed, scoped and any new projects are identified. • Ensure project documentation including scope and feasibility, project and resource plans, risk controls and issues logs, communication plan etc are established and maintained.
oneSource Corporate Critical Factors	• Provision of and delivery of value for money quality services – ensuring a high level of service that is reflective of all customer needs • Anticipates and plans for customer needs and demands – delivering a customer focused shared service which is a cultural 'fit', is flexible and proactive in approach • Delivers a resilient business, which continuously improves and innovates with healthy revenue streams • Operates an ethos of joint working and operates across oneSource regardless of location • Delivers capacity and capability to operate and improve the business and delivering resolutions to problems and challenges • Delivers a flexible and scalable service to innovate, enhance market knowledge and continuously improve • Invests in people and skills to deliver a sustainable business • Provides a transactional service that is multi-channelled, face to face, local and nationwide • Provides effective contract management ensuring services are delivered to agreed targets and standards

General	• OneSource is committed to and champions equality and diversity in all aspects of employment and service provision. All employees are expected to understand and promote this approach in their work. • Adherence to Health and Safety requirements and proper risk management is required from all employees in so far as is relevant to their role. All employees are expected to understand and promote good health and safety practices and manage risks appropriately • Deal with any Safeguarding issues that might arise, in line with the Council's policies and procedures. • Comply with Health and Safety Regulations associated with your employment. • Be aware of the council's responsibilities under the Data Protection Act 1984 for the security, accuracy and relevance of all personal data held on such systems and ensure that all processes comply with this. • To treat all information acquired through your employment, both formally and informally, in strict confidence

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 15 JUNE 2017

Subject Heading:	**BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2016/17**
CLT Lead:	**Debbie Middleton**
Report Author and contact details:	**Debbie Ford** **Pension Fund Manager** **01708432569** **Debbie.ford@onesource.co.uk**
Policy context:	**A Business plan demonstrates compliance against Myners' principles for effective decision making**.
Financial summary:	**Any associated costs met by the Pension**

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 sets out the work undertaken by the Committee during 2016/17 and the plan of work for the following year (2017/18). This will form the basis of the Pension Fund Business Plan.

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

RECOMMENDATIONS

That the Committee:

Agree the Business Plan/Report of the work of the Committee attached as **Appendix A** and refer it to the Full Council meeting for consideration being held in July 2017.

REPORT DETAIL

1. Background

1.1 Under the old regulation 12 (3) of the Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2009, each administrating authority was required to include in its Statement of Investment Principles (SIP) the extent to which the authority's policy complies with guidance given by the secretary of state. Compliance is measured against the six principles set out in the Myners Principles.

1.2 In a letter from the Department of Communities and Local Government (DCLG) to administering authorities dated 14 December 2009 reference is made to using guidance as issued by Chartered Institute of Public Finance and Accountancy (CIPFA) published on 11 December 2009. This is a guide to the application of the Myners Principles and includes suggested best practices that could be adopted to demonstrate compliance.

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

1.4 The new Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 has removed the requirement to publish compliance against the six Myners principles but the Committee agreed to still publish and explain compliance against these principles. This was published with the new Investment Strategy Statement in March 2017.

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

Training Plan. This would demonstrate compliance against Myners Principles 1: Effective Decision making.

1.6 CIPFA guidance suggests that the Business Plan is submitted to the committee for consideration and should contain:

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

2. Training

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

a) To consider and agree the investment strategy and statement of investment principles (SIP) for the pension fund and subsequently monitor and review performance
b) Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
c) To appoint and review the performance of advisers and investment managers for pension fund investments
d) To take decisions on those matters not to be the responsibility of the 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.

2.2 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.

2.3 LGPS (Amendment) (Governance) Regulations 2015 states that Administering Authority must have regard to guidance issued by the Secretary of State. Guidance was issued by the 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.

2.4 A joint training strategy that incorporates Pension Committee member training with LPB members to keep officer time and training costs to a minimum, has been developed and agreed by the Pensions Committee on the 24 November 2015 and the Local Pension Board on the 6 January 2016. The Training Strategy can be found in **Appendix A - Annex C.**

2.5 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's Knowledge and Skills Code of Practice.

2.6 Training and development will be held with regard to the work plan as shown in **Appendix A - Annex B**. The training undertaken can be seen within **Appendix A - Annex D**

IMPLICATIONS AND RISKS

Financial implications and risks:

1. Training costs are met from the Pension Fund directly or via the Advisor Fee.
2. There is a considerable risk of poor decision making if Members of the Committee are not adequately trained.

Legal implications and risks:

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

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

Human Resources implications and risks:

None arising directly.

Equalities implications and risks:
None arising directly

BACKGROUND PAPERS

None

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APPENDIX A

Havering
LONDON BOROUGH

HAVERING PENSION FUND

BUSINESS PLAN/REPORT ON THE WORK OF THE PENSIONS COMMITTEE DURING 2016/17

INTRODUCTION

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

The Business Plan looks forward over the next three years and will be reviewed and updated annually.

This report also covers the period 1st April 2016 to 31 March 2017 and outlines:

- The work of the Pensions Committee
- Key issues arising during the course of the year

The financial position of the Havering Pension Fund for 2015/16 is featured as part of the formal Annual Report of the Fund itself and not included here. The Annual Report is prepared later in the year when the pension fund accounts have been finalised.

BACKGROUND TO THE PENSION FUND

The Council is an Administering Authority under the Local Government Pension Scheme Regulations and as such invests employee and employer contributions into a Fund in order to pay pension benefits to scheme members. The Fund is financed by contributions from employees, employers and from profit, interest and dividends from investments.

The Pension Fund has a total of 39 employers, of which the London Borough of Havering is the largest. The other employers in the fund are made of up of 31 Scheduled bodies (Academies and Further Education bodies) and 7 Admitted bodies (outsourced contracts).

The Council has delegated the responsibility for investment strategy and performance monitoring to the Pensions Committee.

The Fund's Actuary (Hymans Robertson) carried out a triennial valuation during 2016/17 based on data as at 31 March 2016. The main purpose of the valuation is to calculate the funding position within the Fund and set employer contribution rates. The valuation is a planning exercise for the Fund, to assess the monies needed to meet the benefits owed to its members as they fall due. As part of the valuation process, the Fund reviews its funding and investment strategies to ensure that an appropriate contribution plan is in place.

The valuation prior to this date was undertaken at 31 March 2013 and a comparison of funding levels can be seen below:

Summary

Valuation date	31 March 2013	31 March 2016
Total Liabilities	£752m	£857m
Market Value of Assets	£461m	£573m
Surplus/(deficit)	(£291m)	(£284m)
Funding Level	**61.2%**	**67.0%**

The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance over the period. The liabilities have also increased due to a reduction in future expected investment returns, although this has been partially been offset by lower than expected pay and benefit growth.

The Fund has seven fund managers (who have specific mandates) and performance is monitored against an agreed benchmark.

The Fund has adopted a strategic benchmark for the whole of the fund of Gilts (All Stocks Index Linked Gilts) + 1.8%. The main factor in meeting the strategic benchmark is market performance.

Strategic Benchmark - A strategic benchmark has been adopted for the overall Fund of Index Linked Gilts + 1.8% per annum. This is the expected return in excess of the fund's liabilities over the longer term. The strategic benchmark measures the extent to which the fund is meeting its longer term objective of reducing the funds deficit. The current shortfall is driven by the historically low level of real interest rates which drive up the value of index linked gilts (and consequently the level of the fund liabilities).

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

Havering Pension Fund uses the services of State Street Global Services Performance Services PLC (formerly known as WM Company) to provide comparative statistics on the performance of this Fund for its quarterly monitoring.

Annual performance and comparisons to the Local Authority universe is provided by the Pensions & Investment Research Consultants Limited (PIRC).

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

In 2016/17, the overall return on the Fund's investments was **17.1%** (2015/16 -1.2%). This represented an outperformance of **4.0%** against the tactical benchmark (2015/16 under performance of -2.8%) and an under performance of **-3.7%** against the strategic benchmark (2015/16 under performance of -7.7%).

Following the results of the 2016 Valuation and in line with regulations the Committee developed a new Investment Strategy Statement (ISS) which replaced the Statement of Investment Principles (SIP). During the last quarter of 2016/17 some fund rebalancing and short term changes as set out in the ISS was undertaken to bring the asset allocation closer to their benchmark.

The revised asset allocation targets are shown for comparisons against the SIP's target in the following table and reflect the asset allocation split and targets against their individual fund manager benchmarks:

Asset Class	Target Asset Allocation (SIP Nov 15)	Target Asset Allocation (ISS Jan 17)	Investment Manager/ product	Segregated / pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	12.5%	15.0%	LCIV Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	6.25%	7.5%	State Street Global Asset	Pooled	Passive	FTSE All World Equity Index
	6.25%	7.5%	State Street Global Asset	Pooled	Passive	FTSE RAFI All World 3000 Index
Multi Asset Strategy	15%	12.5%	LCIV Baillie Gifford (Diversified Growth Fund)	Pooled	Active	Capital growth at lower risk than equity markets
	20%	15.0%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5%
	15%	15%	LCIV Ruffer	Pooled	Active	Absolute Return
Property	5%	6%	UBS	Pooled	Active	IPD All balanced (property) Fund's median +
Gilt/Investment Bonds	17%	19%	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%	2.5%	State Street Global Assets – Sterling liquidity Fund			Invested in cash up until Feb 17 pending identification of an infrastructure project.

*0.75% prior to 1 November 2015

During the year our mandate with Baillie Gifford (Global Alpha Fund) and the Ruffer Absolute Return Fund was transferred to the London CIV (Collective Investment Vehicle). The total value of assets with the LCIV is now £292m which represents 44% of assets under management. UBS, SSgA, Ruffer, GMO and Baillie Gifford manage the assets on a pooled basis. Royal London manages the assets on a segregated basis.

The Fund will have ongoing discussions with the London CIV to progress the transition of assets onto the London CIV platform in accordance with the Department of Communities and Local Government (DCLG) timelines.

Fund Managers are invited to present at the Pensions Committee Meeting every six months. On alternate dates, they meet with officers for an informal 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.

The (DCLG) Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS) issued September 2016 relaxed the regulatory framework for scheme investments which also included the relaxation on reviewing investment manager performance.

In light of the above guidance the Committee has been asked to consider reviewing the current reporting arrangements and if agreed will be implemented during 2017/18.

FUND GOVERNANCE STRUCTURE

Day to day management of the Fund is delegated to the Statutory Section 151 Officer (7 November 2016) and the Chief Executive prior to the appointment of the interim section 151 officer. 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.

The terms of reference for the 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

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 Jason Frost – Conservative Group
Cllr Nic Dodin – 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 (until 31 March 2017)

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

Fund Administrator	London Borough of Havering
Actuary	Hymans Robertson
Auditors	Ernst and Young LLP
Performance Measurement	State Street Global Services – Performance Services PLC (formerly WM Company)

Custodians	State Street Global Services
Investment Managers	Royal London Asset Management (Investment Bonds) UBS (Property) Ruffer LLP (Multi Asset) (transferred to London CIV 21 June 2016) State Street (Passive UK/Global Equities) Baillie Gifford (Global Equities) (transferred to London CIV 15 February 2016) Baillie Gifford Diversified Growth Fund (Multi Asset) (transferred to London CIV 11 April 2016) GMO Global Real Return (UCITS) from January 2015 London CIV Baillie Gifford Diversified Growth Fund (from 15 February 2015) London CIV Baillie Gifford Global Alpha (from 11 April 2016) London CIV RF Absolute Return (from 21 June 2016)
Investment Advisers	Hymans Robertson LLP
Legal Advisers	London Borough of Havering Legal Services provide legal advice as necessary (specialist advice is procured as necessary)
Chief Executive	Andrew Blake-Herbert
Section 151 Officer	Debbie Middleton (from 7 November 2016)
Pension Fund Accountant	Debbie Ford
Pensions Administration Management	Sarah Bryant Director of Exchequer & Transactional Services

PENSION COMMITTEE MEETINGS 2016/17

The Committee met a number of times during 2016/17 and **Annex A** sets out the coverage of matters considered, but the key issues that arose in the period are shown below:

Key issues arising in the period

- **Annual Report**

The Pension Fund Annual Report 31 March 2016 was produced in line with the LGPS (Administration) regulations and agreed.

- **Funding Strategy Statement**

Agreed the Funding Strategy Statement

- **Investment Strategy Statement**

The first Investment Strategy Statement was agreed in line with the LGPS (Management and Investment of Funds) Regulations 2016.

- **2016 Draft Actuarial Valuation Report**

Noted

- **Business Plan**

The Pension Fund Business Plan for 2016/17 was agreed incorporating the work of the pension committee members.

- **Reviewed Fund Managers quarterly performance**

- **Fund Manager voting and Engagement Activity**

Noted the review of fund manager voting and engagement and agreed to receive this report annually.

- **Reviewed performance of the Pension Fund's Custodians, Investment Advisor and Actuary.**

- **LGPS Havering Employing Authority and Administering Discretions**

Noted the discretions policies

- **Collective Investment Vehicle (CIV)**

The Committee received updates on the progress of transitioning assets to the London CIV.

PENSION COMMITTEE MEETINGS 2017/18 AND ONWARDS

In addition to the annual cyclical work programme as shown in **Annex B** there are a number of issues that are likely to be considered by the Pensions Committee in the coming year and beyond:

- Admissions Policy
- TUPE Manual
- London CIV Pooling progression /updates with Continued transfer of assets to the London CIV
- DCLG Investment Regulation changes as applicable
- Continued training and development
- Topical issues discussed as appropriate
- MiFIDII implications
- Finalisation and execution of the investment strategy
- Local Authority Pension fund Forum (LAPFF) and Pensions and Lifetime Savings Associations (PLSA) membership consideration.

INTERNAL & EXTERNAL RESOURCES

The Pensions Committee is supported by the Administrating Authority's Finance and Administration services (oneSource) and the associated costs are therefore reimbursed to the Administrating 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.

FINANCIAL ESTIMATES

In June 2014 The Chartered Institute of Public Finance & Accountancy (CIPFA) produced guidance on how to account for Management costs and then updated it in 2015 in order that improvements in cost comparisons can be made across all funds. Management costs are now split between three cost categories as follows:

Administrative Expenses

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

	2015/16 Actual £000's	2016/17 Estimate £000's	2016/17 Actual £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's
Administration & Processing	429	430	496	496	496	496
Other Fees	6	6	7	7	7	7
Other Costs	77	80	59	72	72	72
TOTAL	**512**	**516**	**562**	**575**	**575**	**575**

Estimates for 2017/18 onwards may be subject to change due to an impending service review of Pensions Administration.

Investment Management expenses

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

	2015/16 Actual £000's	2016/17 Estimate £000's	2016/17 Actual £000s	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's
Fund Manager Fees	2,743	2,700	2,958	2,958	2,958	2,958
Custodian Fees	40	40	34	34	40	40
Performance Measurement services	13	13	11	11	13	13
TOTAL	**2,796**	**2,753**	**3,003**	**3,003**	**3,011**	**3,011**

Governance and Oversight

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

	2015/16 Actual	2016/17 Estimate £000's	2016/17 Actual £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's
Financial Services	142	142	142	142	142	142
Actuarial Fees	35	50	83	50	50	50
Audit Fees	21	21	24	21	21	21
Member training (inc. LPB)	0	10	5	10	10	10
Advisor Fees	50	50	42	50	50	50
CIV/SAB Levy	76	30	25	103	91	76
Local Pension Board	11	15	3	5	5	5
Pensions Committee	20	20	36	36	36	36
TOTAL	**355**	**338**	**360**	**417**	**405**	**390**

OVERALL TOTAL	**3,663**	**3,607**	**3,925**	**3,995**	**3,991**	**3,976**

Please note the following regarding the figures in the above tables

- Ignores inflation
- Management and custody fees are charged according to the fund value; therefore an average figure has been applied for 2017/18 onwards.
- Based on 2016/17 fund and staffing structures.
- Local Pension Board budget has been reduced to show the training costs separately as this will be shared with the Committee.
- Fund Management fees takes no account of fee savings that are expected from joining the London CIV.
- Takes no account of a potential new service delivery for pensions administration

TRAINING AND DEVELOPMENT STRATEGY

The Local Pension Board (LPB) was established by the London Borough of Havering on 25 March 2015.

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 can be found in **Annex C.**

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. 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.

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

Long membership of the committee is encouraged in order to ensure that expertise is developed and maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the term in Council, unless exceptional circumstances require a change.

PROVISION OF TRAINING

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

The majority of training and development is cyclical in nature, spanning the four year membership of the committee. Associated training and development will be given when required which will be linked to the Pension Fund meeting cyclical coverage for 2017/18 as shown in **Annex B.**

In addition to the cyclical training and development 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. Special pension committee meetings will be arranged from time to time to discuss matters that fall outside of the cyclical meetings.

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

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

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

The Fund is a member of the CIPFA Pensions network which gives access to an extensive programme of events, training/workshops, 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.

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

Training and development took place during 2016/17 to ensure that Members of the Committee were fully briefed in the decisions they were taking.

Training logs are maintained and attendance and coverage can be found in **Annex D.**

The Pensions Regulator has launched an e-learning programme and this has been made available for members to use.

Training will be targeted as appropriate.

APPENDIX A

PENSIONS COMMITTEE MEEETINGS HELD DURING 2016/17		ANNEX A
MONTH	**TOPIC**	**ATTENDED BY**
14 June 2016	• Pension Fund Performance Monitoring for the quarter ending 31 March 2016, received presentations from Multi Asset managers GMO (Global Real Return) • Noted the Business Plan/Annual report on the work of the Pensions Committee during 2015/16. • Noted Pension Fund Audit Plan 2015/16 • Agreed the Business Plan/Annual Report on the work of the Pensions Committee 2015/16 • Noted LGPS: Havering Employing Authority Discretions and Administering Authority Discretions • AOB: discussed the response to DCLG on pooling	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Steven Kelly (sub for Cllr Wallace) Cllr Jason Frost Cllr Nic Dodin Cllr Clarence Barrett Cllr Stephanie Nunn John Giles (UNISON) Heather Foster-Byron (employer representative)
20 September 2016	• Pension Fund Performance Monitoring for the quarter ending 30 June 2016, received presentations from Royal London (Bonds Manager) and Ruffer (Multi Asset Manager). • Noted Pension Fund Accounts for the year ending 31 March 2016. • Agreed the Pension Fund Annual Report for the year ending 31 March 2016. • Noted the review of fund manager voting and engagement activity • Noted results of the GAD section 13 'dry run' report	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Melvin Wallace Cllr Dilip Patel (sub for Cllr Jason Frost) Cllr John Mylod (sub for Cllr Stephanie Nunn) Cllr Clarence Barrett Cllr Nic Dodin John Giles (UNISON)
22 November 2016	• Noted the views of officers on the performance of the Fund's Actuary for the period to September 2016. • Noted the views of officers on the performance of the Fund's Custodian for the period to September 2016. • Noted the views of officers on the performance of the Fund's Investment Advisor for the period to September 2016 and agreed contract extension for the Fund's Investment Advisor contract for one year. • 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.	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Jason Frost Cllr Clarence Barrett Cllr Stephanie Nunn Cllr Nic Dodin Andy Hampshire (GMB union Rep)
13 December	• Pension Fund Performance Monitoring for the quarter ending 30	Cllr John Crowder (chair)

APPENDIX A

PENSIONS COMMITTEE MEEETINGS HELD DURING 2016/17		ANNEX A
MONTH	**TOPIC**	**ATTENDED BY**
2016	September 2016, received presentations from State Street Global Assets (UK/Global Passive Manager, GMO Global Real Return (Multi Asset Manager) and the Fund's pooling operator London CIV. • Considered changed to the investment strategy but deferred decisions for another meeting.	Cllr David Johnson (vice chair) Cllr Melvin Wallace Cllr Clarence Barrett Cllr Stephanie Nunn Cllr Nic Dodin John Giles (UNISON)
23 January 2017 (Special meeting)	• Agreed some changes to the investment strategy and rebalancing proposals	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Clarence Barrett Cllr Stephanie Nunn Cllr John Mylod (sub for Cllr Nic Dodin) John Giles (UNISON)
14 March 2017	• Pension Fund Performance Monitoring for the quarter ending 31 December 2016, received presentation from Royal London (Bonds Manager), UBS (Property Manager). • Noted Pension Fund Audit Plan 2016/17 • Noted the Local Pension Board Annual Report for 2015/16 • Verbal update on LCIV funding and Governance.	Cllr David Johnson (chair for the meeting) Cllr Robby Misir (sub for Cllr Crowder) Cllr Melvin Wallace Cllr Jason Frost Cllr Ron Ower (Sub for Cllr Clarence Barrett) Cllr Stephanie Nunn Cllr Nic Dodin John Giles (UNISON) Andy Hampshire (GMB)
28 March 2017	• Agreed Funding Strategy Statement • Agreed Investment Strategy Statement • Noted the Draft 2016 Actuarial Valuation Report	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Melvin Wallace Cllr Dilip Patel (sub for Cllr Jason Frost) Cllr Ray Morgon (sub for Cllr Stephanie Nunn) Cllr Nic Dodin Cllr Clarence Barrett

- Please note that three members constitute a quorum.
- Target dates for issuing agendas were met.

APPENDIX A

INDICATIVE PENSIONS COMMITTEE CYCLICAL MEETINGS AND COVERAGE 2017/18

ANNEX B

	15 JUNE 2017	**19 SEPTEMBER 2017**	**21 NOVEMBER 2017**	**12 DECEMBER 2017**	**13 MARCH 2018**
Formal Committees with Members	▪ Overall Monitoring Report on Pension Fund to end of March: a) GMO (Multi Asset) ▪ Business plan/ Annual report on the work of the committee ▪ Investment strategy Review	▪ Overall Monitoring Report on Pension Fund to end of June: ▪ Ruffer (Multi Asset Absolute Return) ▪ London CIV (pooling manager) ▪ Pension Fund Accounts 16/17 ▪ Pension Fund Annual Report ▪ Stewardship/ LAPFF /PLSA membership	▪ Annual review of Custodian ▪ Annual review of Adviser ▪ Annual review of Actuary ▪ Annual review of Fund Managers voting & Engagement ▪ Review of Governance Policy ▪ Whistleblowing Annual Assessment ▪ Risk Register Review	▪ Overall Monitoring Report on Pension Fund to end of September: a) (Passive Global Equity) b) Royal London (Bonds)	▪ Overall Monitoring Report on Pension Fund to end of December: a) UBS (Property)
Officer Meeting	Meeting: 11 May 17 ▪ Royal London (Bonds) ▪ SSGA (Passive Equity Manager)	Meeting: 16 Aug 17 ▪ UBS (Property) ▪ WM presentation Meeting Advisor Review Custodian Review	No officer meeting	Meeting: 8 Nov 17 ▪ GMO (Multi Asset Manager)	Meeting: 08 Feb 17 ▪ Ruffer (Multi Asset Absolute Return) ▪ London CIV (pooling manager) ▪ Royal London (Bonds)
Training	Associated Training	Associated Training	Associated Training	Associated Training	Associated Training

Contents

LGPS Knowledge & Skills Training Strategy

Introduction

This is the Training Strategy for the London Borough of Havering Pension Fund.

It sets out the strategy agreed by the Pension Committee and the Local Pension Board concerning the training and development of the members of the

- Pension Committee (the "Committee Members");
- members of the local pension board (the "Board members") and
- officers of the London Borough of Havering Pension Fund responsible for the management of the Fund (the "Officers").

The Training Strategy is established to aid the Committee Members in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to challenge and act effectively within the decision making responsibility put upon them. A code of practice and a framework of knowledge and skills has been developed by CIPFA which LGPS Funds are expected to sign up to.

The Public Service Pensions Act 2013 also requires London Borough of Havering Council to set up a Local Pension Board. The Act requires the Pensions Regulator to issue a code of practice relating to the requirements of the knowledge and understanding of Board members. Guidance on the knowledge and understanding of Local Pension Boards in the LGPS has also been issued by the Shadow Scheme Advisory Board in January 2015. Although this has not been designated as statutory guidance it should be held as good guidance and should be acknowledged.

The objective of the CIPFA knowledge and skills framework is to determine and set out the knowledge and skills sufficient to enable the effective analysis and challenge of decisions made by officers and advisers to the Pension Committee whilst the guidance for local pension boards issued by the Shadow Scheme Advisory Board is to assist the individual Board members in undertaking their role to assist the Scheme Manager (the London Borough of Havering Pension Fund) in the effective governance and administration of the local government pension scheme.

The training desired to achieve the additional knowledge and skills will be contained in the appropriate training plan(s)

Strategy Objectives

The Fund objectives relating to knowledge and skills are to:

- Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise;
- Ensure the pension fund is effectively governed and administered;
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and are well based and regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Communities and Local Government are met.

To achieve these objectives –

The Committee Members require an understanding of:

- Their responsibilities as an administering authority of a local government pension fund;

- The fundamental requirements relating to pension fund investments;
- The operation and administration of the pension fund;
- Controlling and monitoring the funding level; and
- Taking effective decisions on the management of the London Borough of Havering Pension Fund.

Board members are conversant with–

- The Regulations and any other regulations governing the LGPS
- Any document recording policy about the administration of the Fund
- and have knowledge and understanding of:
- The law relating to pensions; and
- Such other matters as may be prescribed

To assist in achieving these objectives, the Fund will aim for full compliance with the CIPFA Knowledge and Skills Framework and Code of Practice to meet the skill set within that Framework. Attention will also be given to the guidance issued by the Shadow Scheme Advisory Board, the Pensions Regulator and guidance issued by the Secretary of State. So far as is possible, targeted training will also be provided that is timely and directly relevant to the Committee's and Board's activities as set out in the Fund's 3-year business plan. For example, funding training will be given immediately preceding the Committee or Board meeting that discusses the Funding Strategy Statement.

Board members will receive induction training to cover the role of a local pension board and understand the duties and obligations of a LGPS administering authority, including funding and investment matters.

All those with decision making responsibility in relation to LGPS pension matters and Board members will:

- have their knowledge measured and assessed;
- receive appropriate training to fill any knowledge gaps identified; and
- seek to maintain their knowledge.

Application of the training strategy

This Training Strategy will apply to all Committee Members and representatives with a role on the Pension Committee and to all the Board members. Other officers involved in the management and administration of the Fund will have their own sectional and personal training plans and career development objectives.

Purpose of training

The purpose of training is to:

- Equip people with the necessary skills and knowledge to be competent in their role;
- Support effective and robust decision making;
- Provide individuals with integrity;
- Meet the required needs in relation to the Fund's objectives.

Summary

This training strategy:

- Assists in meeting the Fund’s objectives;
- Meets the business plan;
- Will assist in achieving delivery of effective governance and management;
- Will equip those responsible with appropriate knowledge and skills;
- Promote ongoing development of the decision makers;
- Lead to demonstrating compliance with the CIPFA Knowledge and Skills Framework;
- Lead to demonstrating with statutory requirements and associated guidance

Meeting the business plan

Timely and relevant

There will be times in the year when different circumstances will require specific training. For example, funding training can be provided just prior to the Committee meeting that discusses the Funding Strategy Statement.

It is vital that training is relevant to any skills gap or business need and training should be delivered in a manner that fits with the business plan.

The training plan will therefore be regularly reviewed to ensure that training will be delivered where necessary to meet immediate needs to fill knowledge gaps.

Delivery of Training

Training resources

Consideration will be given to various training resources available in delivering training to the Committee Members, Board members or officers in order to achieve efficiencies. These may include but are not restricted to:

For Pension Committee and Local Pension Board Members	For Officers
• In-house* • Self-improvement and familiarisation with regulations and documents • The Pension Regulator's e-learning programme • Attending courses, seminars and external events • Internally developed training days and pre/post Committee/Board sessions* • Shared training with other Funds or Frameworks* • Regular updates from officers and/or advisers* • Circulated reading material	• Desktop / work based training • Attending courses, seminars and external events • Training for qualifications from recognised professional bodies (e.g. CIPFA, CIPP, PMI) • Internally developed sessions • Shared training with other Funds or Frameworks • Circulated reading material

*These may be shared training events for Pension Committee and Local Pension Board members

Training Plans

To be effective, training must be recognised as a continual process and will be centred on 3 key points

- The individual
- The general pensions environment
- Coping with change and hot topics

Training Plans will be developed at least on an annual basis, as per the Business Plan. These will be updated as required taking account of the identification of any knowledge gaps, changes in legislation, Fund events (e.g the triennial valuation) and receipt of updated guidance.

Induction Training will be provided for all new officers with pensions responsibilities, members of the Pension Committee and Local Pension Board. This will involve covering the requirements of the Training Strategy alongside guidance and information on the requirements of their roles..

External Events

As information on events becomes available, members will be advised by email.

After attendance at an external event, Committee Members and Board members will be expected to provide verbal feedback at the following Pension Committee/Board meeting covering the following points:

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to other Pension Board members.

Officers attending external events will be expected to report to their direct line manager with feedback covering the following points:

- Their view on value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to other officers.

On-going development

Maintaining knowledge

In addition to undertaking on-going assessment in order to measure knowledge and skills against the CIPFA requirements and identify knowledge gaps, Officers, Committee Members and Board members are expected to maintain their knowledge of on-going developments and issues through attendance at external events and seminars.

Appropriate attendance at events for representatives of the Pension Committee and Board will be agreed by the appropriate chairman.

If an event occurs and appropriate, members will be advised by email.

The Committee/Board will approve an appropriate level of credits for attendance at an event in relation to the type of event, its content and relevance to knowledge maintenance.

In any event, attendance at events/seminars (which may include some internal training sessions) that are not direct training courses focussed on the CIPFA Knowledge Skills Framework or issued guidance but enhance and improve related on-going and emerging pension knowledge will count as one credit for each session of up to a half day.

Where the Committee/Board members have work related experience or previous knowledge through former membership of a Committee or Board will be able to count this as credits in their own assessment and score accordingly.

There is a practical recognition that it will take a newly appointed member a reasonable period to attain the required full level of knowledge and understanding and hence the training and continued development will span the duration of the role.

Owing to the changing world of pensions, it will also be necessary to have ad hoc training on emerging issues or on a specific subject on which a decision is to be made by the Pension Committee in the near future or is subject to review by the Local Pension Board. These will also count as credits in maintaining knowledge.

As a measure of training given or knowledge level officers, Committee Members and Board members are expected to have a minimum level of training credits. These are as follows -

Relevant Group	Knowledge Skills - level of attainment	The expected minimum level of credits over the 4 year term of office
Officers	Own sectional and personal development objectives	Own sectional and personal development objectives
Pension Committee and Local Pension Board Members	32 credits	8 credits

These will be measured and monitored annually by Pension Fund Accountant and reported in the Pension Fund Annual Report. Please see the appendix Knowledge and Skills – self assessment of training needs for basis of scoring.

CIPFA Requirements

CIPFA Knowledge & Skills Framework

In January 2010 CIPFA launched technical guidance for Elected Representatives on Pension Committees and non-executives in the public sector within a knowledge and skills framework. The Framework covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context;
- Pension accounting and auditing standards;
- Financial services procurement and relationship development;
- Investment performance and risk management;
- Financial markets and products knowledge; and
- Actuarial methods, standards and practice.

The Knowledge and Skills Framework sets the skill set for those responsible for pension scheme financial management and decision making under each of the above areas in relation to understanding and awareness of regulations, workings and risk in managing LGPS Funds.

CIPFA's Code of Practice on Public Sector Pensions Finance, Knowledge and Skills (the "Code of Practice")

First published in October 2011 and redrafted in July 2013, CIPFA's Code of Practice embeds the requirements for the adequacy, acquisition, retention and maintenance of appropriate knowledge and skills required. It recommends (amongst other things) that LGPS administering authorities:

- formally adopt the CIPFA Knowledge and Skills Framework in its knowledge and skills statement;
- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

The Pension Committee of the London Borough of Havering Pension Fund fully supports the intentions behind CIPFA's Code of Practice and has agreed to formally adopt its principles. This 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 Knowledge and Skills Code of Practice.

Guidance from the Scheme Advisory Board

General Principles

The Shadow Scheme Advisory Board has taken note of the regulatory requirements and the principles of the Pension Regulator's code of practice and published in January 2015 guidance in a local government context for administering authorities to support them in establishing their local pension board and this includes a section to enable it to help Board members to meet their knowledge and understanding obligations.

Knowledge and understanding must be considered in the light of the role of a Local Pension Board and the London Borough of Havering will make appropriate training available to assist and support Board members in undertaking their role.

Pension Committee Members

Although the CIPFA knowledge and skills framework complements the code of practice that should be adopted by administering authorities there is no legal requirement for knowledge and understanding for members of a Pension Committee. However it will be seen as good practice and governance if members of a Pension Committee use the knowledge and skills requirements set at a similar benchmark as the Local Pension Board.

Degree of Knowledge and Understanding

The role of the Local Pension Board is to assist the administering authority. To fulfil this role, Board members should have sufficient knowledge and understanding to challenge failure to comply with regulations, any other legislation or professional advice relating to the governance and administration of the LGPS and/or statutory guidance or codes of practice.

Board members should understand the regulatory structure of the LGPS and the documentary recording of policies around the administration of the London Borough of Havering Fund in enough detail to know where they are relevant and where it will apply.

Acquiring, Reviewing and Updating Knowledge and Understanding

Board members should commit sufficient time in their learning and development and be aware their responsibilities immediately they take up their position. London Borough of Havering will therefore provide induction training for all new Board members which will also be available to new Committee Members.

Flexibility

It is recognised that a rigid training plan can frustrate knowledge attainment when it is required for a particular purpose or there is a change in pension's law or new responsibilities are required of Board members. Learning programmes will therefore be flexible to deliver the appropriate level of detail required.

Training records and certification

Progress and achievement

Personalised training plans will be used to document and address any knowledge gaps and update areas of learning where required and assist in the acquisition of new areas of knowledge in the event of change.

Progress and achievement will be certificated at least on an annual basis individually to all Committee Members, Board members and officers. These will detail:

- The current assessment of an individual's acquired knowledge;
- Their progress against achieving the credits from other internal/external training or events; and

- All training courses and events attended by them to date.

Risk

Risk Management

The compliance and delivery of this training strategy is at risk in the event of –

- Frequent changes in membership of the Pension Committee or Pension Board
- Poor individual commitment
- Resources not being available
- Poor standards of training
- Inappropriate training plans

These risks will be monitored by officers within the scope of this training strategy and be reported where appropriate.

Budget

Cost

A training budget will be agreed and costs will be met from the Pension Fund.

PENSIONS COMMITTEE MEMBER TRAINING 2016/17

ANNEX D

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
20 September 2016	Officers – Pension Fund Accounts briefing covered: Overview of the pension fund accounts	Town Hall – prior to Committee meeting	KSF 2	Officer time	Cllr Crowder (chair) Cllr David Johnson (vice chair) Cllr Barrett Cllr Wallace Cllr Dodin John Giles (UNISON)
28 September 2016	DG Publishing “ Question Time” – Asset Pooling Demystified	Royal Society of Medicine, 1 Wimpole Street	KSF 1	Free	Cllr Nunn
13 December 2016	Hymans - Joint training with Pensions Board - Valuation 2016 Results covered: • 2016 Valuation framework • Valuing liabilities • Actuarial assumptions • 2016 results • What changed since 2013	Town Hall	KSF 6	£2,000	Cllr Crowder (Chair) Cllr Dodin Cllr Johnson Cllr Nunn

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
23 January 2017	Hymans - Joint Training with Pensions Board – Investment Strategy Training covered; • New investment Regulation 2016 • Overview of ISS/DCLG Guidance • What changed between SIP/ISS • Asset allocation rebalancing • Investment strategy evolution • Investment objectives • Overview of UK Stewardship code • Credit Strategies	Town Hall	KSF 5	£2,100	Cllr Crowder (Chair) Cllr Johnson Cllr Barrett Cllr Nunn John Giles (UNISON)
1 March 2017	LCIV Annual conference including fund manager sessions	Crutched Friars, London	KSF 4	No fee	Cllr Barrett Cllr Johnson Mark Holder Cllr Nunn

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

Agenda Item 10

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of the Local Government Act 1972.

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Agenda Item 12

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