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PENSIONS COMMITTEE AGENDA

7.00 pm	**Tuesday 13 November 2018**	**Committee Room 3A - Town Hall**

Members 7: Quorum 3

COUNCILLORS:

Conservative Group (3)

John Crowder (Chairman)
Melvin Wallace (Vice-Chair)
Matt Sutton

Residents' Group (1)

Stephanie Nunn

Upminster & Cranham Residents Group (1)

Ron Ower

North Havering Residents' Group (1)

Martin Goode

Independent Residents' Group (1)

Vacancy

Admitted/Scheduled Bodies Representative (Voting Rights) (1)

Vacancy

Trade Union Observers (No Voting Rights) (2)

John Giles, Unison
Andy Hampshire, GMB

For information about the meeting please contact:
Victoria Freeman 01708 433862
victoria.freeman@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:-

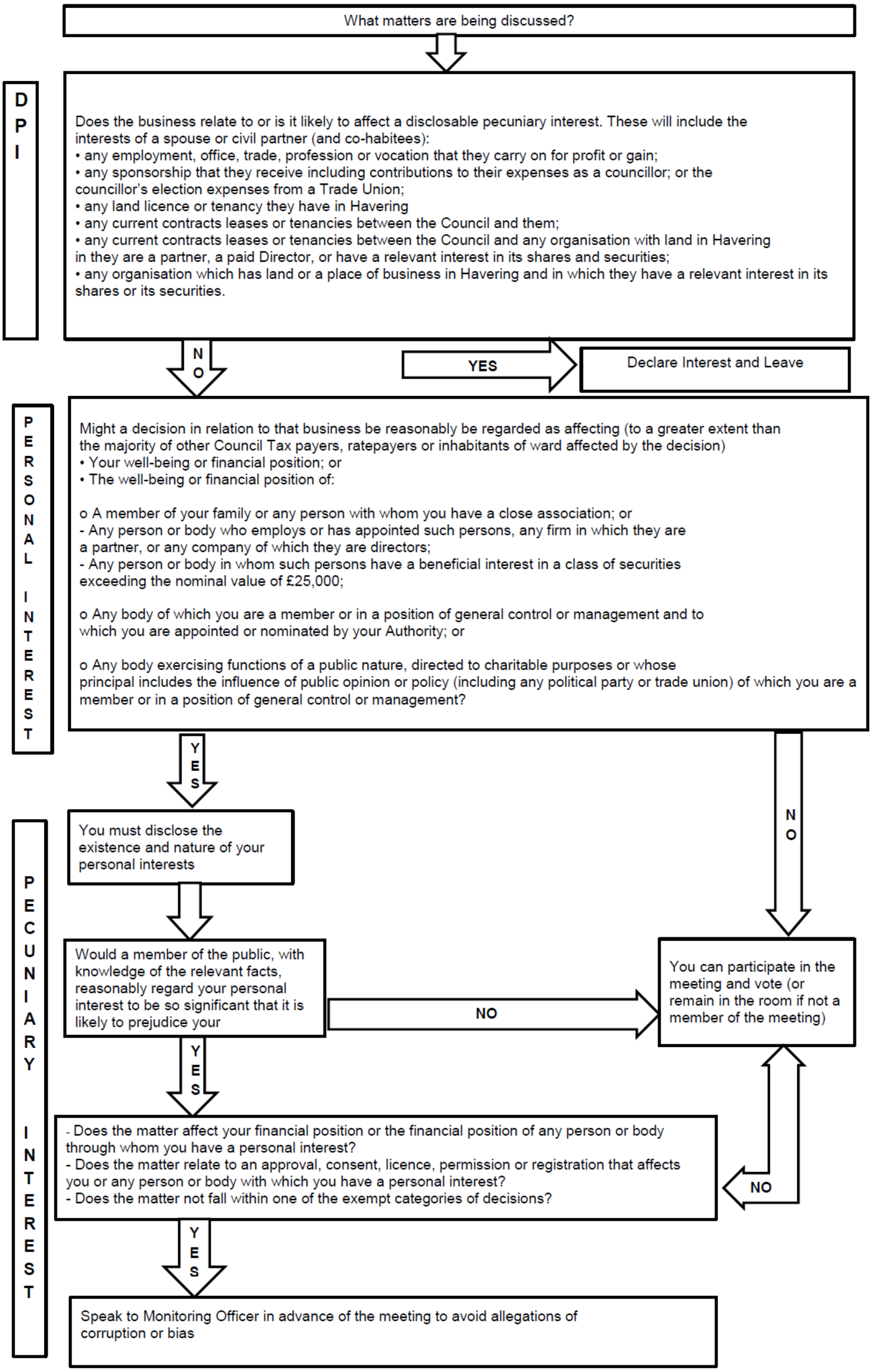
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing,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

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



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 - 6)

To approve as correct the minutes of the Special meeting held on 12 March 2018 and the ordinary meeting held on 18 September 2018 and authorise the Chairman to sign them.

5 LOCAL PENSION BOARD MINUTES (Pages 7 - 14)

To receive the notes of the inquorate meeting of the Local Pension Board held on the 2 October 2018.

6 SERVICE REVIEW OF THE PENSION FUND CUSTODIAN (Pages 15 - 20)

7 INVESTMENT ADVISOR SERVICE REVIEW (Pages 21 - 28)

8 REVIEW OF THE PENSION FUND ACTUARY SERVICES 10 OCTOBER 2017 - 30 SEPTEMBER 2018 (Pages 29 - 34)

9 REVIEW OF GOVERNANCE COMPLIANCE STATEMENT (Pages 35 - 56)

10 WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT (Pages 57 - 64)

11 PENSION FUND RISK REGISTER (Pages 65 - 92)

12 COMMUNICATIONS STRATEGY STATEMENT FOR THE PERIOD 2018-21 (Pages 93 - 110)

13 FUNDING REVIEW STRATEGY - UPDATE (Pages 111 - 162)

14 FORWARD PLAN (Pages 163 - 164)

Andrew Beesley
Head of Democratic Services

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MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Committee Room 3B - Town Hall
12 March 2018 (10.41 am - 4.10 pm)

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman) and Melvin Wallace
Residents' Group	Stephanie Nunn
UKIP	David Johnson (Vice-Chairman)
Trade Union Observers	John Giles (Unison) and Andy Hampshire, GMB

Prior to the opening of the meeting, those present received training, delivered by the Fund's Investment Advisor – Hymans, which outlined what the Real Asset mandate would consist of, the illiquid nature of the product, pricing structures and risk factors.

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

38 **APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS**

Apologies for absence were received from Councillors Clarence Barrett and Joshua Chapman.

39 **DISCLOSURE OF INTERESTS**

There were no declarations of interest.

40 **EXCLUSION OF THE PUBLIC**

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

There were no members of the public or press present for the duration of the meeting.

41 **APPOINTMENT OF INVESTMENT MANAGER - REAL ASSET MANDATE**

At its meeting on the 19 September 2017, members agreed to undertake the search for a Real Asset Manager in collaboration with Newham, as the London CIV did not have any clear plans for the launch of real asset products.

Members received a paper produced by bfinance, which outlined the offers made by the shortlisted managers. bfinance is an independent specialist financial services investment advisory firm that was used to carry out the search of the fund managers.

The Committee received presentations from two shortlisted Real Asset Managers and three Infrastructure Managers.

The Committee scored and evaluated each shortlisted manager and gave consideration as to the appointment of managers to deliver the Real Asset Mandate.

RESOLVED:

That one of the fund managers be appointed to implement the Global Real Estate and that two of the fund managers be appointed to implement the Infrastructure Asset.

Chairman

MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Town Hall, Main Road, Romford
18 September 2018 (7.00 - 8.25 pm)

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman) and Melvin Wallace (Vice-Chair)
Residents' Group	Stephanie Nunn
North Havering Residents' Group	Martin Goode

All decisions were taken with no votes against.

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

66 **APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS**

Apologies for absence were received from Councillors Matt Sutton and Ron Ower. In addition, apologies for absence were received from John Giles, Unison and Andy Hampshire, GMB.

67 **DISCLOSURE OF INTERESTS**

There were no disclosures made at the meeting.

68 **MINUTES OF THE MEETING**

The minutes of the meeting held on the 24 July 2018 and the Special meeting held on the 20 August 2018, were agreed as a correct record and signed by the Chairman.

69 **EXCLUSION OF THE PUBLIC**

It was RESOLVED that members of the public be excluded from the meeting as there would likely be disclosure to them of exempt information within the meaning of paragraph 3 of the Local Government Act 1972 as it referred to the financial or business affairs of the organisation.

70 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 18**

The report provided the Committee with an overview of the performance of the Havering Pension Fund investments for the quarter to 30 June 2018. The performance information was taken from the quarterly performance reports supplied by each Investment Manager, State Street Global Services Performance Services PLC (formally known as WM Company) quarterly Performance Review report and Hymans Monitoring Report.

It was noted that the net return on the Fund's investments for the quarter to 30 June 2018 was 1.9%. This quarter, the fund performance matched the combined tactical benchmark and outperformed against the strategic benchmark by 2.5%.

It was noted that the overall net return of the Fund's investments for the year to 30 June 2018 was 5.6%. This represented an outperformance of 1.3% against the combined tactical benchmark and an outperformance of 1.9% against the annual strategic benchmark.

RESOLVED: That

1. **The summary of the performance of the Pension Fund within the report, be noted.**
2. **Hymans performance monitoring report and presentation, be noted.**
3. **A presentation from the Fund's Passive Equity Manager Legal & General Investment Management (LGIM), be received.**
4. **The quarterly reports provided by each investment manager, be noted.**
5. **The analysis of the cash balances, be noted.**
6. **The letter received from the London CIV regarding the signing of the Pension Cost Recharge and Pension Guarantee Agreements and progress made with signing the documents, be noted.**

71 **HAVERING COLLEGES PROPOSED MERGER - LOCAL GOVERNMENT PENSION SCHEME (LGPS) CONSIDERATIONS**

The Committee received a report which outlined the impact that the proposed merger of Havering Sixth Form College and Havering College of Further & Higher Education with New City College would have on the Havering Local Government Pension Scheme.

RESOLVED: That

1. **The Funds Actuary report, be noted.**
2. **The comments from Havering College of Further & Higher Education on the rationale for the merger of Havering College and Havering Sixth Form College with New City College, be noted.**

3. **A report would be submitted to Cabinet to make a decision on the pension implications of the proposed merger, be noted.**

72 **GUARANTEED MINIMUM PENSION (GMP) RECONCILIATION WORK**

The Committee received a report which informed of the agreement to fund the reconciliation of HMRC data with that held by the Havering Pension Fund. The reconciliation had been scoped as additional work that would be undertaken by Lancashire County Council (via Local Pensions Partnership) under their current delegated functions arrangements with the Council, the Local Pensions Partnership. The estimated costs would be chargeable to the Pension Fund.

RESOLVED:

That the Section 151 Officer's decision to agree funding the GMP reconciliation work, be noted.

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Chairman

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NOTES OF THE MEETING OF THE
LOCAL PENSION BOARD
Town Hall, Main Road, Romford
2 October 2018 (4.00 - 5.25 pm)

Present:

Mark Holder, Scheme Member Representative
David Holmes, Scheme Member Representative

Officer Attendance:

Caroline Berry, Pensions Projects and Contracts Manager, OneSource, LBH
Debbie Ford, Pensions Manager, Pensions and Treasury
Lillian Thomas, Pensions Accountant, Pensions and Treasury
James Curtis, LPP (part of the meeting)

1 **CHAIR'S ANNOUNCEMENTS**

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

2 **APOLOGIES FOR ABSENCE**

An apology for absence was received from Anne Giles, Scheme Member Representative.

3 **DISCLOSURE OF INTEREST**

There were no disclosures of interest.

4 **MINUTES OF THE MEETING**

The meeting of the Local Pension Board held on the 21 August 2018 could not be approved, as the meeting was not quorate.

The following matters arose from the minutes of the previous meeting, which were not covered elsewhere on the agenda:

i) Minute No. 52(i): There was a written process in place to identify late payments, however the process would require amendment to bring in line with the Charging Policy.

ii) Minute No. 52(ii): Members had suggested that when the Charging Policy was next reviewed, that reference be included to charging a fee for administration for processing late payments and interest charges. Action to be carried forward – Caroline Berry

iii) Minute No. 52(iii): The Work Plan to be included on the agenda as a standing item – Victoria Freeman.

iv) Minute No. 54: Note No. 5 below refers.

v) Minute No. 55(i): To discuss the process of recording those overpayments that were written off with Sarah Bryant and would report back to members. Action to be carried forward – Caroline Berry.

vi) Minute No. 55(ii): It was reported that all active members would receive email notifications if their email addresses were held by LPP. Furthermore, details were made available on the website.

vii) Minute No. 55(iii): Members were advised that the legal requirements did not apply to deferred statements. The regulations applied only to annual benefit statements.

viii) Minute No. 55(iv): It was confirmed that Standard Life had sent an annual benefit statement to all members within the required timescales.

ix) Minute No. 55(v): Note No. 6 below refers.

x) Minute No. 57: Note No. 7 below refers.

xi) Minute No. 58: Note No. 8 below refers.

Actions:

i) Note No. 4(i): Members had suggested that when the Charging Policy was next reviewed, that reference be included to charging a fee for administration for processing late payments and interest charges. Action to be carried forward – Caroline Berry.

ii) Note No. 4(ii): The Work Plan to be included on the agenda as a standing item – Victoria Freeman.

iii) Note No. 4(v): To discuss the process of recording those overpayments that were written off with Sarah Bryant and would report back to members. Action to be carried forward – Caroline Berry.

5 KEY PERFORMANCE INDICATOR REPORT

The monthly report for September 2018 was circulated to members. The majority of cases had been completed on time, and this was largely due to the section being fully staffed and an improvement in management. It was requested that it be highlighted on the Pension Board monthly report the main indicators that are reported in the Annual report to the Pensions Committee. Furthermore, it was requested that accumulative data for the year be presented to the next meeting. Members questioned the validity of data for cases completed on time and were provided assurance that the data was not misleading. Members requested that the following data be provided in future reports:

- Additional work
- 'Top' cases not on time
- Complaints and IDRP cases
- Life Certificates
- Axis online take up numbers

Concern was raised that the issues with the event report from HMRC had not been resolved, as this was a breach and needed to be urgently addressed.

Actions:

i) That it be highlighted on the Pension Board monthly report the main indicators that are reported in the Annual report to the Pensions Committee – James Curtis / Caroline Berry.
ii) To discuss the format to present accumulative data for the year - James Curtis / Caroline Berry.
iii) To check who was responsible for running previous reports for HMRC as a priority to ensure that statutory obligations are met – James Curtis / Debbie Ford.

6 COMPLIANCE CHECKLIST

The following sections were discussed and points noted:

Section D – Publishing Information about schemes

D1 – Does the Administering Authority publish information about the Pension Board? Members considered the requirement to be fully compliant.

D2 – Does the Administering Authority publish other useful related information about the Pension Board? Members agreed that the website be updated to include a profile of the Local Pension Board members.

D3 – Is the information about the Pension Board kept up to date? Members considered the requirement to be fully compliant.

D4 – Does the Administering Authority publish information about Pension Board business? Members considered the requirement to be fully compliant.

Section I – Internal Dispute Resolution

I1 – Has the Administering Authority put in place an internal dispute resolution procedure? Members considered the requirement to be fully compliant. The IDRP was being reviewed with LPP to ensure that it was up to date and included all required and additional helpful information as the current version was based on an old DCLG sample.

I2 – Does the Administering Authority's process highlight or consider whether a dispute is exempt? The process would be included in the IDRP factsheet when the document was reviewed.

I3 – Does the information made available to applicants about the procedure clearly state the procedure and process to apply for a dispute to be resolved including: who it applies to; who the specific person (stage 1) is; the timescales for making applications; who to contact with a dispute; the information that an applicant must include; the process by which decisions are reached? Members considered the requirement to be fully compliant.

I4 – Has the Administering Authority ensured that employers who make first stage decisions also have IDRP in place? Some of the scheme employers had published their stage 1 IDRP adjudicator details along with their scheme discretions, however all employers needed to be encouraged to do so although it was optional for employers to nominate stage 1.

I5 – Are the timescales in the procedure adhered to including sending an acknowledgement on receipt of an application? As yet, the London Borough of Havering had not had a formal IDRP complaint to process, however there was a policy and process in place and this would be reviewed.

I6 – Does the Administering Authority notify and advertise the procedure appropriately? Members considered the requirement to be fully compliant.

I7 – Are the notification requirements in relation to TPAS and the Pensions Ombudsman being adhered to? Members considered the requirement to be fully compliant.

I8 – Does the Administering Authority regularly assess the effectiveness of its arrangements? Members considered the requirement to be fully compliant.

I9 – Does the Administering Authority regularly assess the effectiveness where employers carry out a stage one process? Members considered the requirement to be fully compliant.

Actions:

i) D2 - To provide a short profile for inclusion on the website - All members.

ii) I1 – To review the IDRP with LPP to ensure that it was up to date and included all required and additional helpful information as the current version was based on an old DCLG sample – Caroline Berry.

iii) I2 – Details of the process highlighting or considering whether a dispute is exempt to be included in the IDRP factsheet when it is reviewed – Caroline Berry.

iv) I5 – The policy and process for IDRP complaints to be reviewed – Caroline Berry.

7 **RISK REGISTER REVIEW**

Members received the Pension Fund Risk Register, which incorporated risks relating to Havering, Newham and Bexley.

The following points were discussed:

- Risk No. 1, Risk of Inaccurate three yearly actuarial valuation: It was proposed that the wording be amended to 'inappropriate' rather than 'inaccurate'.

- Risk No. 4, Risk of failure to comply with legislative requirements: It was felt that the consequence of not adding on legislation in a timely manner and contributions being delayed was a risk.

Members were requested to provide their views on the format of the Pension Fund Risk Register document to officers before the document was presented to the Pensions Committee on the 13 November 2018.

Action:

To provide views on the format of the Pension Fund Risk Register document to officers by the 12 October 2018 – All members.

8 **LPP INTERNAL AUDIT**

LPP had an internal audit around benefits administration in January 2018. Unfortunately, due to risk, LPP were unable to share the internal audit report externally.

The scope of the internal audit included:

- Benefit processing – Controls were in place surrounding the accurate calculation and payment of pension benefits, payment authorisations, documentation and record keeping procedures;
- Accuracy of benefit calculations;
- Workflow management process from receipt of task to delivery; and
- Management of the administration system in respect of calculations and factor changes, to enable the administration system to process calculations in line with the Rules of each scheme.

LPP had received an 'effective' rating which could be defined as:

'Compliant (adequate in the circumstances) – low risk of failure in risk mitigation and control and some scope or justification to improve risk mitigation and control activities for audited functions, processes and activities'.
Concern was raised that the key performance data may not provide an accurate picture as the data did not account for time received and when the case was logged onto the system. It was suggested that any questions that officers and members may have, be presented to Lancashire Council who procure LPP, in order for LPP to be challenged.

Action: Statistics and questions to be presented to Lancashire Council – Caroline Berry.

9 **BOARD MEMBERSHIP AND RECRUITMENT**

The advertisement and application form for an employee representative for the Local Pension Board and Pensions Committee had been sent to all employers and trusts. The closing date for applications was the 31 October 2018.

10 **TO RECEIVE FEEDBACK FROM RECENT MEETINGS OF THE PENSIONS COMMITTEE**

Members received the minutes of the Pensions Committee held on the 18 September 2018.

Chairman

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Agenda Item 6

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 13 November 2018

Subject Heading:	**SERVICE REVIEW OF THE PENSION FUND CUSTODIAN**
SLT Lead:	**Jane West**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer.
Financial summary:	Estimated costs for the custodial services for the period 1 October 2017 to 30 September 2018 is in the region of £24,000.

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

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

SUMMARY

This report reviews the performance of the Custodian, State Street, for the period October 2017 to September 2018.

RECOMMENDATIONS

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

REPORT DETAIL

1. Background

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

2. Review of the Custodian's performance

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

- Safe Keeping and Custody
- Investment Accounting and Reporting.

- **Safe Keeping and Custody**

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

- **Investment Accounting and Reporting**

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

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

2.3 Officers have shared the outcome of the service performance review with State Street, which is set out in the table below:

CRITERIA	ASSESSMENT
What is important to the Authority	It is important that the Pensions Committee and officers have confidence that all assets are secure and have been properly accounted for. *Officers have confidence that the assets are secure and accounted for correctly as State Street produces quarterly reconciliations of valuations and holdings to fund manager records. Where differences occur outside the agreed tolerance levels explanations are provided.* It is important that accurate accounting records are maintained and appropriate reconciliations are provided by the custodian to the fund's investment managers records. *Officers are satisfied that accurate accounting records are maintained. Officers run detailed reports from the custodian's website "mystatestreet" and these are reconciled to the summary level reports produced by State Street. This provides assurances and validates that the reports run from State Streets website are correct.* *State Street and officers also undertake quarterly reconciliations of the accounts in an IFRS format and this process is proving to be successful in that any errors can be identified early and can therefore assist the closedown process at year end. Whilst there have been a number of reconciliations issues officers are able to resolve these with State Street. During the audit of the 2017/18 accounts it was discovered that some bond holdings were misclassified b y State Street which they then corrected. Additional reconciliations have been implemented by officers to gain assurances that holdings at asset class level are matching the fund managers.*
Safe keeping and custody	This relates to the core functions of the custodian. *Officers are appreciative of how this role is*

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

3. Conclusion

3.1 Officers are satisfied with the safe keeping and custody functions provided by State Street custodians.

3.2 Officers are satisfied with the overall investment accounting and reporting functions but officers will work with State Street to ensure that improvements to the level of service with regard to the accounting and reporting functions are improved.

IMPLICATIONS AND RISKS

Financial implications and risks:

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

For the period covered in this report, invoices have only been received up to June 2018. Based on estimates the final cost for the period October 2017 to September 2018 is expected to be in the region of £24,000. Prior year costs for the period Oct 16 to Sep 17 was £24,470.02.

The cost of the custodian services will continue to reduce if the fund's use of pooled funds increases as consequently this reduces the custody and transaction charges. Officers will keep under review whether there is a need for a custodial service going forward once the Fund knows what assets will be held in or outside of the London CIV.

The custodian fees are met from the Pension Fund.

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

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

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

The recommendations made in this report do not give rise to any identifiable HR risks or implications that would affect either the Council or its workforce.

Equalities implications and risks:

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

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

ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;

iii. foster good relations between those who have protected characteristics and those who do not.

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

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

Note here the equalities and social implications of, and risks relating to, the proposed decision.

An Equalities Assessment (EA) will normally be required. Where the EA suggests that there is a significant impact upon ANY of the "protected characteristics", the EA must be an appendix to the report. In all other cases, the EA must be treated as a background paper.

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

BACKGROUND PAPERS

None.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 13 November 2018

Subject Heading:	**INVESTMENT ADVISOR SERVICE REVIEW AND PROCUREMENT UPDATE**
SLT Lead:	**Jane West**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Accountant*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	In line with Myner's compliance statement policy number 4 recommendation on Performance measurement and contract procedure rules
Financial summary:	Investment Adviser fees of £79,000 are met from the Pension Fund

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

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

SUMMARY

This report reviews the performance of the Investment Advisor, Hymans, covering the period October 2017 to September 2018.

Due to the expiry of the existing contract, this report also provides members with an update as to the procurement arrangements for a new investment Advisor contract.

RECOMMENDATIONS

It is recommended that the Committee notes:

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

2. that Officers will resume the procurement process for the Investment Adviser for the Pension Fund ("the Fund") through the "LGPS National Framework for Investment Management Consultancy Services".

REPORT DETAIL

1. Background

1.1 Regulation 9 (4) Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 state that the Fund must take proper advice in relation to the appointment and the terms on which the appointment [of an investment manager] is made .

1.2 Myner's Principles number 2 on clear objectives recommends that the committee, in setting out its overall objective for the Fund, should take proper advice and appoint advisors in open competition.

1.3 Members have adopted the procedure to undertake an annual assessment of the Investment Adviser performance which is in line with Myner's Principle number 4 on performance measurement.

1.4 Hymans was appointed to provide Investment Advisory services to the Havering Pension Fund for the period commencing on the 1st April 2012. The contract is to run from 1st April 2012 until 31st March 2017 unless terminated or extended by the Council in accordance with the terms of the contract, which included an option to extend for a further two years.

1.5 The contract was extended by one year, as agreed by members at its Pensions Committee meeting on the 22 November 2016.

1.6 A further one year extension was agreed by the Chair and noted by the Pensions Committee at its meeting on the 13 March 2018.

1.7 The current contract expires on 31 March 2019 with no further options to extend.

2. REVIEW OF THE INVESTMENT ADVISER'S PERFORMANCE

2.1 Hymans has been the Fund's Advisor since April 2006. A change to the individual advisor who was assigned to the Havering Pension Fund took place shortly before the new contract was awarded and this arrangement has continued after the contract commenced in April 2012.

2.2 The core services provided by Hymans generally includes production of quarterly monitoring performance reports, attendance at least four Pension Committee meetings, provision of investment advice and performance monitoring of the fund's investment managers.

2.3 In addition to the above core services, Hymans attended two Special Pensions meetings and delivered training and oversight in relation to the appointment of the Real Asset Managers and Private Debt Managers. Hymans also had discussions with the London CIV (Collective Investment Vehicle) on progression of the Fund's investment strategy and undertaken monitoring of the Fund Managers' Responsible Investment and Stewardship policies.

2.4 A set of criteria was defined as part of the investment advice tender specification and these are outlined below:

- Attendance at Committee Meetings
- Investment Advice
  - Setting Investment Strategy
  - Investment Management structure
  - Appointing an investment Manager
  - Monitoring an investment Manager
  - Other responsibilities (advising on statement of investment principles, custody, setting investment guidelines etc.)
- The value they will/could add to the decision making process
- The level of Pro-Activity expected from the adviser
- Support arrangements

2.5 In addition, included within the tender documentation officers selected other criteria which the Investment Advisor should be assessed against, as they are essential in a service such as investment advice, as:

- Communications and advice are clear, timely, accurate, challenging and comprehensive
- Provision of advice to officers and members include comprehensive options and is encouraged to test the alternatives to decisions being made
- A partnership approach to reaching investment decisions

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

CRITERIA	ASSESSMENT
Attendance at Pensions Committee Meetings	Investment Advisor has attended each Pension Committee as required.
Investment Advice :	It is important that the Pensions Committee and officers receive expert advice on investment issues and how they affect the Local Government Pension Scheme. • Investment Strategy – Hymans assisted the Pensions Committee in developing the investment strategy and also instrumental in progressing the appointments of the new fund managers, providing training as appropriate to assist the committee in understanding the new asset classes. • Monitoring an investment manager - Every quarter the investment advisor produces a monitoring report which covers market analysis and the performance of the investment managers. Hymans attends the Pensions Committee meetings to discuss their report and have provided valuable advice and guidance at these meetings. • The advisor also prepared a report of the responsible investment activities of the Fund's investment managers in support of the Committee's ongoing monitoring requirements. This report is submitted annually to add value to the monitoring process as set in in the investment strategy statement. • Feedback from members is very positive and they have confidence in the advisors market knowledge.
The value they will/could	• The advisors are expected to add value

CRITERIA	ASSESSMENT
add to the decision making process	through their input to the development of the Fund's investment strategy and their assistance in the selection of individual managers. The investment advisor has continued to include in their quarterly monitoring reports a more quantitative measure of recognising added value, by breaking down the overall return to show market and manager contributions separately.
The level of pro-activity expected from the Adviser	• The investment advisor has taken an active role at Pension Committee meetings and on behalf of the Committee does challenge the fund managers on their performance and strategies.
Support arrangements	• The support arrangements in place are very good.
Communications	• The communication with the adviser is very good. Reports are well structured and easy to understand.
Partnership Approach	• The advisor has close working relationships to the Fund's actuary which helps the understanding of the implications of different strategies on the Fund.

3. Service Review Conclusion

3.1 Officers and the Pensions Committee are satisfied that Hymans delivers a good service and have continued confidence in the advice being given.

4. Procurement update:

4.1 At the Pensions Committee meeting held on the 21 November 2017, members agreed to undertake the procurement of an Investment Adviser for the Fund through the "LGPS National Framework for Investment Management Consultancy Services".

4.2 Following this decision and pre-procurement approvals the Havering Pension Fund joined the LGPS National Framework and the procurement process commenced with invitations to tender (further 'mini' competition) issued on the 19 January 2018.

4.3 In February 2018, the procurement process was withdrawn due to the issue of a London CIV Governance consultation. Officers, in agreement with the Chair, agreed that it would await the outcome of the consultation so that consideration could be given as to whether there would be an impact on the services required by the Investment Advisors.

4.4 in agreement with the Chair, it was also decided that given that the Pensions Committee also agreed (21 November 2017) that they wanted to be involved in the selection process it was deemed more appropriate that the new committee, following the local elections, make this decision before a five to seven year contract was awarded.

4.5 In line with the Pensions Committee previous decision, officers will resume the procurement process for the Investment Adviser for the Fund through the "LGPS National Framework for Investment Management Consultancy Services".

4.6 Officers will review the tender specification to reflect any change of functions now undertaken by the LCIV and it is anticipated that the Invitation for further completion will be re-issued during November 2018 with an estimated presentation to be made before the Committee after December 2018.

IMPLICATIONS AND RISKS

Financial implications and risks:

The cost of Investment Advisory services from October 2017 to September 2018 was £78,540 (prior year £58,895). This includes costs of £37,840 (prior year £49,394) for the core services and £40,700 (prior year £9,500) for additional services.

The increase in costs compared to the same period last year is mainly attributable to the progression of the Investment Strategy and oversight of the new fund manager appointments for Real Assets and Private Debt mandates.

The costs of the Investment Advisor are met from the Pension Fund.

The fee of £5,000 for joining the LGPS framework is also met from the Pension Fund.

Legal implications and risks:

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

Human Resources implications and risks:

There are no direct human resource implications and risk arising from this report.

Equalities implications and risks:

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

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

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

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

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

BACKGROUND PAPERS

Background Papers List

None

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 13 NOVEMBER 2018

Subject Heading:	REVIEW OF THE PENSION FUND ACTUARY SERVICES 1 OCTOBER 2017 – 30 SEPTEMBER 2018
SLT Lead:	Jane West
Report Author and contact details:	Debbie Ford 01708 432569 Debbie.ford@onesource.co.uk
Policy context:	A review of the performance of the services provided by the Actuary demonstrates compliance against Myners principles and contract procedure rules.
Financial summary:	Actuarial net costs in the region of £30,000 are met from the Pension Fund or from scheme employers where rechargeable.

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

The report reviews the performance of the Actuary from the 1 October 2017 – 30 September 2018.

RECOMMENDATIONS

Members note the views of officers on the performance of the Actuary during the period 1 October 2017 to 30 September 2018.

REPORT DETAIL

1. The Havering Pension Fund (the 'Fund') joined the Croydon Framework in March 2015 to obtain Actuarial and Benefits Consulting Services. Hymans Robertson was the appointed Actuary under this framework agreement and that contract expired on 31 March 2018.

2. At the Pensions Committee held on the 21 November 2017 members agreed to join the National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services. They also agreed that the Pensions Committee delegate: to officers to undertake the procurement of the actuarial service provider and delegate the Statutory Section 151 officer to award the actuarial services contract at the completion of the procurement exercise.

3. The Fund, following a further mini competition exercise, appointed Hymans Robertson under Lot 1 (Actuarial Services). The contract commenced on the 16 July 2018 and terminates on the 15 July 2023 with an option to extend up to a further two years to 15 July 2025 if required (contract variations were approved to cover the period from April 2018 until July 2018).

4. Service continuity remains as there have not been any changes to the day to day contacts at Hymans.

5. Hymans Robertson are the incumbent actuary for Havering Pension Fund and been with the Fund since April 2010.

6. Members require an annual assessment of the Investment Adviser performance which is in line with Myner's Principle number 4 on performance measurement.

7. Monitoring the contract meets post contract award procedures and ensures services are being delivered in accordance to the contract.

8. Actuarial services includes but are not limited to completion of the triennial valuation exercise, Funding Strategy Statement preparation and advice, annual accounting valuations of pensions liabilities (in accordance with Financial Reporting Standards (FRS) 102/ International Accounting standards (IAS)19 requirements, the provision of carrying out opening valuations for new scheme employers; closing valuations for exiting scheme employers; benefit administration advice and ad-hoc advice and guidance which takes account of their knowledge of the fund position and fund strategies.

9. The Actuary also provides advice regarding changes in legislation affecting the Pension Fund, reviews guidance, and provides scheduled and admitted body contribution rates and other calculations as required.

10. Since September 2017 the Actuary has undertaken the following:

Valuation

- Preparation and attendance at meeting to discuss Council funding including like for like comparisons with other London boroughs.
- Interim Fund valuation
- GAD/S13 report

Employers

- Accent Catering – Revision of valuation
- Review of Caterlink employer contribution rate
- Harrow Lodge school – opening position and calculation of employer contribution rate
- Frances Bardsley Cleaners – Provision of Pension Information Memorandum.
- College mergers
- Breyer's Indemnity Renewal reports
- Gaynes Academy – New employer contribution rate and opening position report.
- Broadford School – Provided Pensions Information Memorandum report in respect of cleaning contract for the school
-

Training

- Delivered training for members on TUPE

Accounting

- Produced statutory accounting disclosures (IAS19 and IAS26) for the London Borough of Havering and FRS17/102 disclosures for the Colleges and Academies.
- Produced the actuarial statement for the statement of accounts.

General

- Meeting and correspondence with Local Pensions Partnership
- Update to Admission Policy
- Single Fraud Investigation Services – correspondence and calculations for a reversal of a transfer
- Actuarial support in respect of fund matters – including advice on employment tribunal and mortality assumptions, ill health early retirements.
- Provided a briefing on Pass through and risk sharing arrangements.
- Preparation an attendance at a meeting to discuss surplus on cessation following legislation changes

11. Hymans has delivered a diverse range of advice and assistance to the Council over this period. Service delivery response times remain excellent. All relevant services required during the period 1 October 2017 – 30 September

2018 were delivered in both a timely manner and to a good or excellent quality.

12. Hymans continually provides briefings on changes to legislation, government consultations, conference feedback and commentary on related news articles. These are viewed as excellent and give Council officers a steering on most issues arising.

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

14. Officers have shared the outcome of the service performance review with Hymans which is set out above.

IMPLICATIONS AND RISKS

Financial implications and risks:

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

The gross costs of the actuarial services were:

1 October 2017 to June 2018 (old contract)	£28,160
1 July 2018 to 30 September 2018(new contract)	£51.859
	£80,019

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

1 October 2017 to June 2018 (old contract)	£ 9,960
1 July 2018 to 30 September 2018 (new contract)	£39,750
	£49,710

The total net costs of £30,309 are met from the Pension Fund. Prior year costs for the period Oct 16 to Sep 17 was £80,955.00 (prior year costs were higher as they included charges for the triennial valuation and various one off projects and meetings).

Legal implications and risks:

There are no direct legal implications and risk arising from this report.

Human Resources implications and risks:

There are no direct human resource implications and risk arising from this report.

Equalities implications and risks:

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

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

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

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

Note here the equalities and social implications of, and risks relating to, the proposed decision.

An Equalities Assessment (EA) will normally be required. Where the EA suggests that there is a significant impact upon ANY of the "protected characteristics", the EA must be an appendix to the report. In all other cases, the EA must be treated as a background paper.

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

There are no direct equalities implications and risk arising from this report.

BACKGROUND PAPERS

None.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 13 November 8

Subject Heading:	**REVIEW OF GOVERNANCE COMPLIANCE STATEMENT**
SLT Lead:	**Jane West**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Accountant*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Regulation 55(2) of the LGPS Regulations 2013 requires an administrative authority to keep this document under review
Financial summary:	No financial implications

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

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

SUMMARY

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

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

This report sets out the pension fund's draft Governance Compliance Statement for November 2018 and highlights where changes may be required.

RECOMMENDATIONS

That the committee:

1. Consider whether any, and if so what, amendments are required to the Governance Compliance Statement, and
2. Agree the Governance Compliance Statement, as amended at (**Appendix A**).

REPORT DETAIL

1. Background

1.1 LGPS Regulations

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

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

(b) If the authority does so –
(i) the terms, structure and operational procedures of the delegation,
(ii) the frequency of any committee meetings,
(iii) whether such a committee includes representatives of scheme employers or members, and if so, whether those representatives have voting rights

(c) the extent to which a delegation, or in the absence of a delegation, complies with guidance given by the Secretary of State, and if it does not comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the establishment of a Local Pension Board.

2) An administering authority has a duty to keep the Governance Compliance Statement under review and make revisions as appropriate.

3) Before revising a statement an administering authority must consult such persons as it considers appropriate, following a material change.

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

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

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

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

2) Governance Compliance Statement (Appendix A)

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

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

3) Key points for the committee to consider:

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

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

i. **Principle B Representation Item (a) (iii) –** To meet the required standards all stakeholders are afforded the opportunity to be represented by, where appropriate, appointing independent observers. *Members have previously considered whether or not to employ the services of an independent professional observer to participate in the governance arrangements and decided against it on the basis that the current monitoring arrangements are sufficient for the size of the fund.*

b) Listed below are areas where the authority has made or considering changes:

i. **Investment Pooling Governance Principles –** In October 2016 AON Hewitt with support from CIPFA developed guidance to support the LGPS in demonstrating best practice governance during the implementation of, and when participating in, LGPS asset pooling arrangements, for Havering the pool is the London Collective Investment Vehicle. The guidance suggests reviewing the wording of the Local Authority's constitution and/or the Terms of Reference for the Pensions Committee to consider whether they may need to be refined to adapt with the new investment pooling arrangements. Legal Services are currently reviewing the wording and if any changes are required then these will need to go via Governance Committee for approval before adoption. Any changes required will be reflected at the next review of the Governance compliance statement.

ii. **Other changes –** ***please refer to Appendix A, section 2.*** *Changes reflect amendments made to new committee members.*

c) If approved, the compliance statement will be amended after the committee meeting and will be published on the Council's website. This updated version will also be included in the 2018/19 Pension Fund Annual Report.

IMPLICATIONS AND RISKS

Financial implications and risks:

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

However, the expenses of a Local Pension Board, mentioned in section 1, paragraph 1.2 are included as part of the administration costs for the relevant

LGPS fund. This means that the administering authority will be able to require employers to contribute to those expenses under existing LGPS regulations.

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

Legal implications and risks:

The relevant legislation is set out in the main report.

The possible refinement of the Constitution in the light of the new investment pooling arrangements for the London Collective Investment Vehicle is currently being considered with external advisers.

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

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

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

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

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

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

Note here the equalities and social implications of, and risks relating to, the proposed decision.

An Equalities Assessment (EA) will normally be required. Where the EA suggests that there is a significant impact upon ANY of the “protected characteristics”, the

EA must be an appendix to the report. In all other cases, the EA must be treated as a background paper.

If it is considered that an EA is not necessary, the reason for that MUST be stated here.

BACKGROUND PAPERS

Background Papers List
None

APPENDIX A

Havering
LONDON BOROUGH

PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

Updated November 2018

Contents

1. STRUCTURE AND ROLE OF MEMBERS

The Council is the Administering Authority of the Havering Pension Fund (the Fund). The Council has delegated to the Pensions Committee various powers and duties in respect of its administration of the Fund. The Council agreed changes to its Constitution on the 25 March 2015 to establish the Havering Local Pension Board and adopt their Code of Conduct and Conflict of Interest policies.

Day to day management of the Fund is delegated to the Chief Finance Officer (s151).

1.1 Role of Pensions Committee

Under the Council's Constitution the duties and terms of reference of the Pension Committee are as follows:

- To consider and agree the investment strategy and statement of investment principles for the pension fund and subsequently monitor and review performance;
- Authorise staff to invite tenders and award contracts for actuaries, advisors and fund managers and in respect of other related investment matters;
- To appoint and review the performance of advisors and investment managers for pension fund investments;
- To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning the Local Government Pension Scheme.

There is a code of conduct in place which includes a process that considers potential conflicts of interest, with clearly identified steps on how to report or act should a conflict occur. All members are required to declare any interests in relation to the Pension Fund or items on the agenda at the start of each meeting.

1.2 Role of Local Pension Board (the Board)

The functions of this board are as follows:

- Securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme connected to it;
- Securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions regulator;

- Such other matters as the scheme regulations may specify.

All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

The full version of the Board's Terms of reference can be found on the Havering pension fund website: www.Yourpension.org uk.

2. MEMBERSHIP AND REPRESENTATION

2.1 Pensions Committee

Since May 2018, the membership of the Pensions Committee reflects the political balance of the Council and consists of seven councillors as listed below:

Conservative Group (3)	**Resident's Group (1)**	**Upminster & Cranham Residents' Group (1)**	**North Havering Residents' Group (1)**	**Independent Residents Group (1)**
John Crowder (Chair) Melvin Wallace (Vice-Chair) Matt Sutton	Stephanie Nunn	Ron Ower	Martin Goode	Vacant

The staff trade union may appoint two representatives, entitled to attend and speak at meetings of the Pension Committee. They possess no voting powers. These representatives are however entitled to remain within the Committee, should the public be excluded on the grounds that exempt information is to be considered.

Scheduled and Admitted bodies may appoint one representative, entitled to attend the meetings of the Pensions Committee on their behalf. Voting rights were assigned to this representative at a Council meeting on the 28 March 2012.

Longevity in membership of the Committee is encouraged in order to ensure that expertise is maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the Council in order that members are fully trained, unless exceptional circumstances require a change. Furthermore substitute members are expected to have also been trained. The Council's constitution 'rules of procedure' section was amended on the 28 March 2012 to include a stipulation that if a member does not undertake the required training within six months of appointment than that member shall not partake in the decision making of the Committee until their training has been completed.

2.2 Local Pension Board

The Havering Pension Board consists of four members as follows:

Two Employer representatives - shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. No officer or elected member of the Administering Authority who is responsible for the discharge of any function of the Administering Authority under the Regulations may serve as a member of the Board.

Two Scheme Member Representatives - shall either be scheme members or have capacity to represent scheme members of the Fund. Scheme member representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

Chair - Chair is to be appointed by the employer and scheme member representatives of the Board from amongst their own number on a rotating basis with the term of office shared between an employer and a scheme member representative on an equal basis.

Each employer representative and scheme member representative appointed will serve for a fixed four year period to ensure that expertise is maintained within and members can be fully trained.

Each member of the Board will have one vote but it is expected the Board will as far as possible reach a consensus.

3. GUIDANCE AND MONITORING

3.1 Pensions Committee

The Pensions Committee is supported by the Chief Finance Officer (s151) and OneSource Shared Support Service. The Director of Exchequer and Transactional Services (oneSource) has the responsibility to administer the day to day operations of the Council’s Pension Fund. The Director of Finance and Transformation (onesource) is responsible for providing advice in the overall management of the Pension Fund supported by expert advisors. Members also receive briefings and advice from the Fund’s investment advisor at each committee meeting.

The Pensions Committee also considers advice, as necessary, from the fund’s appointed professional actuary who also attend the meetings as and when required.

Investment Managers are invited to present at the Pensions Committee meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exceptions to this procedure are the pooled managers who will attend two meetings per year, one with Officers and one with the Pensions Committee. The reporting requirements were changed from 15 June 2017 after the Pensions Committee reviewed the current arrangements and agreed that only one fund manager will now attend each committee meeting to give greater focus to investment strategy development. Mandates that operate within the London Collective Investment Vehicle (LCIV) are now manged and monitored by them. However if there are any specific matters of concern to the Committee relating to the managers performance, arrangements will be made for additional presentations.

3.2 Local Pension Board

Officers will attend the Board meetings and provide support and advice as and when required. A budget has been allocated for the Board to fulfil its tasks and this budget includes an allocation for professional advice.

4. REIMBURSEMENT

4.1 Pensions Committee

Members expenses are reimbursed in line with the Council's constitution as laid down in part 6 'Members Allowance Scheme'.

4.2 Local Pension Board

Board members will receive an allowance per scheduled meeting attended, at the same rate paid to co-opted members' for other committees. No payment will be made for nonattendance.

Reasonable travelling expenses for training will be reimbursed.

5. TRAINING

5.1 Pensions Committee

Associated training aligned with the Pensions Committee's foreword plan is submitted to the Pensions Committee for approval as part of the Business plan. Committee Members receive in depth training on a wide range of topics. Training is given on specific investment topics prior to any key decisions being taken. This approach ensures that important decisions are taken whilst training is still fresh in Members minds.

The Fund uses the CIPFA's Knowledge and Skills self-assessment training questionnaire to identify and evidence the knowledge and skills of the members. In addition to the cyclical training that the Committee will have over the lifetime of their membership, training will be provided in the areas where it has been specifically requested or has been identified as required. Associated training and development is linked to the pensions committee meeting cyclical coverage

5.2 Local Pension Board

A joint training strategy has been developed and adopted by the Pensions Committee and the Board.

The Fund uses the CIPFA's Knowledge and Skills self-assessment training questionnaire to identify and evidence the knowledge and skills of the members. Training will be provided in the areas where it has been specifically requested or has been identified as required.

6. MEETINGS

6.1 Pensions Committee

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

6.2 The Local Pension Board

The Board will hold five meetings per year, approximately two weeks after the Pensions Committee meeting, with one Annual meeting being held at the beginning of the committee cycle. Three members constitute quorum. Advisors and officers do not count towards the quorum.

7. SCOPE

7.1 Trustees are encouraged to look beyond administration procedures to really understand the key risks associated with all the functions and activities of the scheme. They are expected to consider risk management and stewardship in broad terms. Key risks include:

- Risk of fraud
- Corporate risk – risk of deterioration in the strength of employer covenant
- Funding and Investment risk – inappropriate investment strategies (one example of this could be risk of a mismatch of assets and liabilities)
- Compliance of Regulatory risk – risk of failure to comply with scheme rules and legislation

7.2 The further practical steps undertaken to cover these risks are as follows:

- The Investment Strategy Statement includes procedures to undertake a risk management review, and ensures terms of reference of delegations cover all key responsibilities.
- The Funding Strategy Statement identifies the measures in place to control the key risks identified as financial (including investment risk), demographic, regulatory and governance.
- The Risk Register identifies the key risks that the Pension Fund may face and the measures that can and have been put in place to mitigate those risks
- The Pension Committee periodically sets out a business plan for the year.
- The Pension Committee comply with the Whistle Blowing requirements of the Pension Act 2004. It urges anyone to inform the correct authorities of any known wrong doings.

8. ACCESS AND PUBLICATION

8.1 Pensions Committee

Details of the Pension Committee meetings are published on the Council’s website, seven days prior to the meeting date, together with agendas and minutes. All members have equal access to papers. The meetings of the Pension Committee are held at the Town Hall and are generally open to the public.

Scheduled and Admitted bodies are directed to the Agenda and minutes published on the Council’s web-site and are notified in writing of any major issues.

An Annual Pension Fund Report and Accounts is published on the Council’s web-site, reporting on the activities and investment performance of the fund. The report also includes the meetings held and details of matters considered.

8.2 Local Pension Board

Details of the Local Pension Board meetings are published on the Council’s website, seven days prior to the meeting date, together with agendas and minutes. All board members have equal access to papers. The meetings of the Board are held at the Town Hall during office hours and are open to the public.

9. REVIEWING AND UPDATING

As well as undertaking an annual review the Council will review the policy as and when material changes occur.

10. COMPLIANCE TABLE

A table is appended to this document and shows the extent of compliance with guidance given by the Sectary of State.

	PRINCIPLE	HAVERING POSITION
A.	**Structure**	
	a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	**Full compliance.** Duties and terms of reference are laid out in the Council's constitution (Part 3) and states that management of the pension fund assets lies with the Pensions Committee. Day to day management of the administration of benefits of the Pension Fund is delegated to the OneSource Shared Services (Director of Exchequer and Transactional Services. Select link to Havering Website to read the Council's constitution: Havering Constitution Section 1 the Governance Compliance Statement refers.
	b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the committee.	**Full compliance.** Admitted/Scheduled bodies may appoint one representative to attend the committee meetings. The staff Trade Unions may appoint two representatives to attend and speak at meetings. The Local Pension Board includes two employer representative and two scheme member representatives. There is no secondary committee. Section 2 of the Governance Compliance Statement refers.
	c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	No secondary committee or panel has been established.
	d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	No secondary committee or panel has been established.

	PRINCIPLE	HAVERING POSITION
B	**<u>Committee Membership and Representation</u>**	
	a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, e.g. admitted bodies);	i**) Full compliance** - A position has been established for Admitted/Scheduled bodies' representative to be a member of the Pensions Committee and is currently vacant. Supplementary to the above stakeholders are consulted for their views with regard to various policies and are directed to papers and reports held on the Council's website.
	ii) scheme members (including deferred and pensioner scheme members),	ii) **Full compliance** – via trade union representation
	iii) where appropriate, independent professional observers, and	iii**) Non-compliance** – The Pension Committee have considered this and decided that it is not appropriate to appoint an independent observer on the basis that the current monitoring arrangements are sufficient for the size of the fund.
	iv) expert advisors (on an ad-hoc basis)	iv) **Full compliance** – The Fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required. Sections 2 and 3of the Governance Compliance Statement refers.

	PRINCIPLE	HAVERING POSITION
C	**<u>Selection and role of lay members</u>** a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	 **Full compliance**. Duties and terms of reference are laid out in the 'Council's constitution and states that management of the pension fund lies with the Pensions Committee. Sections 1 and 2 of the Governance Compliance Statement refer.
	b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	**Full compliance.** Declarations of interest are always an agenda item at the Pension Committee meetings. Section 1 of the Governance Compliance Statement refers.
D	**<u>Voting</u>** a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	 **Full compliance.** The Governance Compliance Statement is clear about voting rights Section 2 of the Governance Compliance Statement refers.
E	**<u>Training/Facility time/Expenses</u>** a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	 **Full compliance.** Member's expenses and allowances are laid out in the Council's Constitution (Part 6). Local Pension Board members will receive an allowance per scheduled meeting attended, at the same rate paid

PRINCIPLE	HAVERING POSITION
	to co-opted members' for other committees. No payment will be made for nonattendance. Reasonable travelling expenses for training will be reimbursed to Local Pension Board members. The Business Plan includes the policy on training. Sections 4 and 5 of the Governance Compliance Statement refer.
b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	**Full compliance.** As above.
c. That the administrating authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken	**Full compliance.** As above. A joint training policy has been adopted by the Pensions Committee and the Local Pension Board and is included within the Annual Business Plan/Work of the Committee. The Business Plan is agreed by the Pensions Committee and all committee members and nominated substitutes are offered training. A training log is maintained and records attendance and training undertaken. Section 5 of the Governance Compliance Statement refers.

	PRINCIPLE	HAVERING POSITION
F	**Meetings (frequency/quorum)** a. That an administering authority's main committee or committees meet at least quarterly	**Full compliance.** The Pension Committee meets five times a year and occasionally holds extra meetings if and when required. Section 6 of the Governance Compliance Statement refers.
	b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the committee sits.	No secondary committee or panel has been established.
Page 54	c. That an administration authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which interests of key stakeholders can be represented.	**Full compliance**. Membership on the Pensions Committee includes a representative to serve all Admitted/Scheduled bodies. Representatives also sit on the Local Pension Board. The current forums for which stakeholders interests can be represented are: • Through invitation to committee meeting • Written correspondence – employers are invited for comments via letters and email as part of any consultation process, including proposed policy changes. Havering is one of the partnerships working with the London Pensions Fund Authority, who have produced a website for scheme members to use. Factsheets and scheme communications are also published on this website along with contact details at Havering for members to contact with their views.

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

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 13 November 2018

Subject Heading:	**WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT**
SLT Lead:	**Jane West**
Report Author and contact details:	**Debbie Ford** **Pension Fund Accountant** **01708432569** **Debbie.ford@onesource.co.uk**
Policy context:	Pensions Act 2004
Financial summary:	**None**

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

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

SUMMARY

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

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

For administering authorities and employers, an initial requirement was to establish procedures to identify any breaches, and then evaluate and if appropriate report to the Regulator. These were put in place during 2005 and part of this procedure was to undertake an annual review. This represents the annual review for the year up to **30 September 2018**.

No possible breaches have been reported to the named officer for reporting issues to within Havering which is the Chief Operating Office/Statutory Section 151 Officer. Consequently no reports have been made to the Regulator

RECOMMENDATIONS

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

REPORT DETAIL

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

2. The Act was updated in 2015 to include changes required under the Public Services Pensions Act 2013 in relation to the establishment of a pension board and states that the requirement to report now applies to:

   a) a trustee or manager of an occupational pension scheme;
   b) a member of the pension board of a public service pension scheme;(new)
   c) a person who is otherwise involved in the administration of an occupational pension scheme;
   d) a professional adviser in relation to such a scheme;
   e) a person who is otherwise involved in advising the trustees or managers of an occupational pension scheme in relation to the scheme.

3. The Pensions Regulator issued a code of practice (CP1) that set out guidance on how to comply with the requirement to report breaches of the law.

4. The Pensions Regulator's objectives are to protect the benefits of pension scheme members and to promote the good administration of work-based pension schemes.

5. The Pensions Regulator Code of Practice provided the following guidance:

a) There is a requirement to report breaches

- Breaches of the law which affect pension schemes should be considered for reporting to the Pensions Regulator.

- The decision whether to report requires two key judgements:

    i. Is there reasonable cause to believe there has been a breach of the law;
    ii. If so, is the breach likely to be of material significance to the Pensions Regulator?

- Not every breach needs to be reported. The Pensions Regulator does not normally regard a breach as materially significant where the trustees or managers (or their advisers and service providers) take prompt and effective action to investigate and correct the breach and its causes, and, where appropriate, to notify any members whose benefits have been affected.

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

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

What makes the breach of material significance depends on:

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

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

c) The reporting arrangements are that:

- All reporters should have effective arrangements in place to meet their duty to report breaches of the law.

- Reliance cannot be placed on waiting for others to report.

- Breaches should be reported as soon as reasonably practicable.

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

Havering via (now Pensions Committee, agreed the following:

6. Actions to ensure compliance / reporting

a) The named officer for reporting issues to within Havering is currently the Chief Operating Office/Statutory Section 151 Officer. Should she be notified of a breach she will set out a plan to:

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

b) The Chief Operating Officer/Statutory Section 151 Officer or a nominated person will then review and assess if a report should be made to the Pensions Regulator. This will normally be within one month of receiving all the appropriate information.

c) The Chief Operating Officer/Statutory Section 151 Officer or nominated person will maintain a system to record breaches even if they are not reported to the Pensions Regulator (the principal reason for this is that the record of past breaches may be relevant in deciding whether to report future breaches); and

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

e) In relation to protecting members' benefits:

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

- Payments out of the scheme are legitimate and timely;
  Confirmed via external audit of the accounts

- The Fund is complying with any legal requirements on scheme funding which apply to the LGPS;
  The Fund's Funding Strategy Statement is produced in conjunction the Fund's Actuary and any regulation changes are reviewed and implemented where required.

- The Administering Authority is properly considering the investment policy and investing in accordance with it;
  Confirmed via work of Pensions Committee and the adoption of a Statutory Investment Strategy Statement.

- Contributions in respect of money purchase AVCs are correctly allocated and invested;
  Confirmed via external audit of the accounts

f) In relation to promoting good administration:

- Schemes are administered properly and appropriate records maintained;
  Confirmed via external audit of the accounts and triennial valuation data verifications

- Members receive accurate, clear and impartial information without delay.
  Confirmed via methods as set out in the Fund's Communication Strategy.

g) In addition:

- A note has been included in the annual report provided to scheme members along with where to raise concerns.

- Fund Managers are requested to disclose any reportable governance issues as part of the Fund's monitoring process.

- The London CIV is regulated by the FCA and, in line with the requirements of the FCA has in place a range of policies and procedures to ensure good governance, in line with legislative and regulatory requirements. These include a whistleblowing policy. Regulatory oversight includes requirements to report to the Board and the FCA, and an oversight function exercised by the Depository.

- Procedures are in place for staff within the Borough dealing with the pension fund (this would include Finance, Accounting, Payroll and HR staff as well as Pension Administration staff) covering what they should do if they become aware of a possible breach and also (in very broad terms) whether there are any areas of pensions law etc. they would be expected to know about in their particular role.

- All Fund employers have been notified of the whistleblowing requirements and is accessible via the pension's website: yourpension.org.uk Havering-Fund-Employers.

- There is a named officer to maintain record of all breaches, assessments and actions taken – the Chief Operating Officers/Statutory Section 151 Officer.

7. Should a breach occur the named officer will write to all Pensions Committee Members setting out action taken and do a full report at the next available Committee.

IMPLICATIONS AND RISKS

Financial Implications and risks:

There are no implications arising directly as the work will be managed within existing resources by, if necessary, re-prioritising work. There are, however, possible financial penalties on non-compliance, hence the need to have procedures in place. The TPR has not issued any financial penalties as a result of the reported non-compliance outlined in Paragraph 8.

Legal Implications and risks:

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

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

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

Human Resources Implications and risks:

The Council has a whistle blowing/confidential reporting policy which this procedure will complement. Existing and new Finance, Accounting, Payroll, HR and Pension Administration staff should be briefed on the procedure so that they are fully aware of their responsibilities (if they become aware of a possible breach) and how it complements the corporate policy. . The actions proposed should ensure that this is the case. The principles of whistle blowing will be adhered to in relation to anonymity.

Equalities implications and risks:

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

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

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

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

Note here the equalities and social implications of, and risks relating to, the proposed decision.

An Equalities Assessment (EA) will normally be required. Where the EA suggests that there is a significant impact upon ANY of the “protected characteristics”, the EA must be an appendix to the report. In all other cases, the EA must be treated as a background paper.

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

BACKGROUND PAPERS

Background Papers List

None

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 13 November 2018

Subject Heading:	**PENSION FUND RISK REGISTER**
SMT Lead:	**Jane west**
Report Author and contact details:	***Lilian Thomas*** ***Pension Fund Accountant*** ***01708431057*** Lillian.thomas@havering.gov.uk
Policy context:	***Pension Fund Governance***
Financial summary:	***No direct financial implications***

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

Communities making Havering	X
Places making Havering	X
Opportunities making Havering	X
Connections making Havering	X

SUMMARY

This report introduces the Pension Fund Risk Register 2018, which details the potential risks that the Fund is exposed to, that the Pensions Committee should be aware of, and the controls in place to manage those risks.

RECOMMENDATIONS

The Pensions Committee is recommended to note the report.

REPORT DETAIL

1. Background

1.1 Risk management is a key responsibility of those charged with Pension Fund Governance and the need for effective risk management is reflected throughout guidance and regulation in the Local Government Pension Scheme (LGPS), in the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 paragraph 7 (2) (c)* and in the CIPFA publication *Delivering Good Governance in Local Government Pension Funds (2016).*

1.2 The LGPS previous legislation *(Management and Investment of Funds) Regulations 2016* Regulation 7 also states that administrating authorities must prepare and publish a statement which states the extent to which an administrating authority complies or does not comply with guidance issued by the Secretary of State. Where it does not comply it must state reasons for non-compliance. (This is known as the Myner's principles). Whilst this is no longer mandatory the Council continues to publish the Myner's Principles to demonstrate good practice.

1.3 Myners' principle number three states that 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.

1.4 The effective management of risk is also an area which is covered within the CIPFA Knowledge and Skills framework recognising the importance that those charged with governance have an understanding of the risks that could impact on the Pension Fund and what steps can be taken to mitigate such risks.

2. Pension Fund Risk Register

2.1 In line with the Local Government Pensions Scheme Regulations (LGPS) and good practice the London Borough of Havering as an administrating authority developed a Pension Fund Risk Register in 2015, which was updated in July 2018 and is attached as **Appendix A** to this report.

2.2 The risk register 2018 complies with reference to the CIPFA *Managing Risk in the LGPS (2012*), input from the Head of Pensions and Treasury, Director of Exchequer and Transactional Services, Pension Fund Manager, and the Pensions Contract Monitoring Officer.

2.3 Havering Pensions Accountancy is within oneSource and as part of the review process in order to produce a standardised register we accessed and perused the risk registers for all 3 boroughs. Within existing registers Havering have identified 7 risks, Newham have identified 14 risks and Bexley have identified 19 risks. (See attached Tri borough comparison as Appendix B for information)

2.4 We used the existing Havering risk register and its 7 risks as a base document and incorporated all causes of risk, controls and mitigations from both Newham and Bexley registers into one generic register. (Many areas of risk were already common to each register).

2.5 Risks will be generic however actions may differ from borough to borough. In order to assess the risk we used the Bexley impact matrix in the new register as this is more simplified than the previous matrix used in the Havering register. The risk likelihood/impact scores are highlighted in green, amber and red.

2.6 The previous Havering risk register was circulated in 2015 and the 17 recommended actions that were identified have been addressed and incorporated in the generic risk register dated July 2018, together with any newly identified actions.

2.7 The risk register identifies the key risks that the Pension Fund may face and the measures that can and have been put in place to mitigate those risks. Seven key risks have been identified and recorded in the risk register and summarised below are:

1. Inaccurate three yearly actuarial valuations - insufficient funding to meet liabilities

2. Incorrect/Inappropriate Investment Strategy - failure to meet strategic objectives by not reducing pension deficit

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

4. Failure to comply with legislative requirements – potential litigations/ reputational risk

5. Inability to manage the Pension Fund and associated services – negative impacts upon service provision

6. Failure to effectively enrol new employers/members – cash flow impacts and possible litigations

7. Pension Fund payment Fraud – potential financial loss

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

2.9 The matrix within the register show that risk can be classified as having two measurements that need to be assessed to determine the scale of the risk i.e.

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

The pension fund uses a 4 x 6 matrix to plot risk likelihood and impact and has set its risk appetite. The green shaded area on the matrix shows the risks where there is good control and the Council is comfortable with that risk. Risks in the amber and red zones are those over which closer control is required.

2.10 Upon review there are a number of further actions at present that have been identified to take forward, that will improve the level of mitigations in place with the aim of reducing the likelihood, impact and the score risk.

2.11. Upon review by officers the risk scorings are assessed by the Council as having good controls in place and the Council is comfortable with the risks and the scores, therefore given a green rating.

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

IMPLICATIONS AND RISKS

Financial Implications and risks:

There are no immediate direct financial consequences arising as a result of this report. However, understanding the risks that are present in the Pension Fund and the management of those risks is essential to the overall strategic management of the Pension Fund and the governance role of this Committee. Being able to assess the likely financial and reputational impact and whether a risk can be categorised as high, medium or low will impact on the decision making process of this Committee.

There are clearly some risks which would be difficult to manage, such as the impact that increased longevity will have on the liabilities of the Pension Fund, but the understanding of such risks could well impact on other aspects of the decision making process to lower risks elsewhere. Not all risks are quantifiable from a financial perspective, but could impact on the reputation of the Fund of the Council and these also need to be taken into account.

Legal implications and risks:
There are no apparent legal implications in noting the Report although as stated above the inherent risks contained within the Risk Register, would have significant legal implications were they to occur.

Human Resources implications and risks:

None arising directly

Equalities implications and risks:

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

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

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

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

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

BACKGROUND PAPERS

None.

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oneSource
supporting public services

Pension Fund Risk Register

Havering

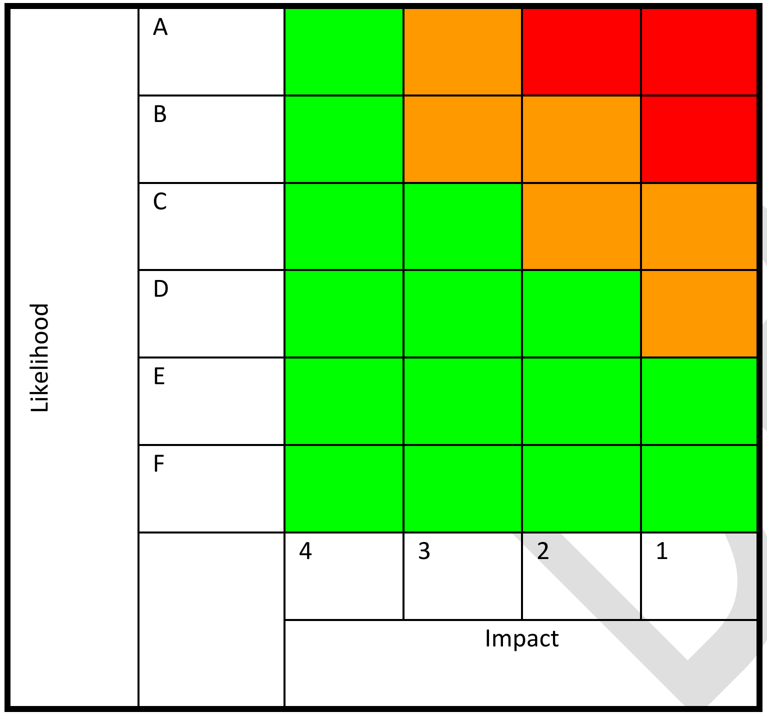
D R A F T

July 2018

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 **Appendix A**

Generic Pension Fund Risk Register

The pension fund uses a 4 x 6 matrix to plot risk likelihood and impact and has set its risk appetite. The green shaded area on the matrix shows the risks where there is good control and the Council is comfortable with the risk. Risks in the amber and red zones are those over which closer control is needed.



Risk Likelihood
F = Very Unlikely
E = Unlikely
D = Possible
C = Likely
B = Very likely
A = Certainty

Risk Impact
4 = Negligible
3 = Moderate
2 = Serious
1 = Major

File:Pension Fund/Risk Register/Draft Generic (Havering) as at July 18

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 Appendix A

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
1	**Risk of Inaccurate three yearly actuarial valuation** **Cause:** ▪ Inappropriate assumptions used by actuary in calculations for valuation ▪ Poor quality data provided from LB of Havering ▪ Personal data not maintained to a high standard (gaps/incorrect) ▪ Actuary's own assumptions are not robust or reflective	▪ Deficit position worsens ▪ Employers pay/ continue to pay inappropriate contribution percentages ▪ Increase in employer contributions ▪ Potential for Council Tax increases ▪ More investment risk may be taken to bridge a gap that doesn't actually exist ▪ Potential for a	▪ Valuation completed by a qualified professional actuary – next valuation being completed in 2019. ▪ Robust, open procurement process in place for appointment of actuary ▪ Some assumptions for valuation are in compliance with regulation ▪ Actuarial assumptions are open to challenge by officers and GAD ▪ Valuation results are checked for consistency across LGPS funds by GAD via the S13 report ▪ Local Government benchmarking/comparisons of	D/3	None identified at this point		S151 Officer/ Director of Exchequer and Transactional Services

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
		more risk adverse Investment Strategy when more risk is required.	assumptions ▪ Annual review of actuary performance undertaken by Pensions Committee ▪ Internal controls in place to ensure accuracy and completeness of data. ▪ Monitoring of contributions due and received				

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 Appendix A

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
2	**Risk of Incorrect / Inappropriate Investment Strategy** **Cause:** ▪ Lack or poor professional investment advice given ▪ Poor governance ▪ Investment advice is not taken ▪ Lack of understanding and awareness (Pension Committee) ▪ Lack of clear risk appetite ▪ Based upon inaccurate actuarial valuation	▪ Pension deficit not reduced ▪ Potential for financial loss ▪ Growth opportunities are not maximised ▪ Could generate inefficiencies and unintended risks if not fully understood. ▪ More investment risk may be taken to bridge a gap that	▪ Robust, open procurement process in place for appointment of Investment Advisor ▪ Investment Advisor performance is annually reviewed by the Pensions Committee ▪ Close working relationship is encouraged between actuaries and investment advisor in the development of the investment strategy ▪ Investment strategy continually assessed as part of the quarterly monitoring process by the Pensions Committee ▪ Liabilities analysed during	D/2	▪ Pensions Committee ▪ Training / Awareness - working towards full compliance with CIPFA Knowledge and Skills framework ▪ Consider using a further independent advisor for challenge to investment advice	▪ Induction carried out for new Pension Fund Committee members July 18. ▪ Knowledge and Skills Training is on-going for Pension Committee and Local Pension Board members. ▪ Independent advisor was appointed for	S151 Officer

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 Appendix A

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
Page 76	▪ Concentration risk by asset, region and sector	doesn't actually exist ▪ Potential for a more risk adverse Investment Strategy when more risk is required. ▪ Potential for Council Tax increases ▪ Loss of investment opportunities and adverse performance	inter-valuation period ▪ Knowledge and skills training of LPB and Committee Members			a one off exercise following adoption of investment strategy in January 17 to undertake a health check and add robustness on the investment strategy.	

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 Appendix A

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
3	**Risk of failure of investments to perform in-line with growth expectations** **Cause** ▪ Poor Fund Manager selection ▪ Underperformance by fund manager ▪ Poor investment advice provided to LB of Havering or not taken ▪ Negative financial market impacts ▪ External factors / increased market volatility (i.e. 2008),	▪ Deficit reduction targets are not met ▪ Potential for losses to be incurred ▪ Increased employer contributions ▪ Reputational risk from poor investments ▪ The fund's assets are not sufficient to meet its long term liabilities ▪ Economy	▪ Robust, Fund Manager selection process ▪ Diverse portfolio to reduce negative effects from market volatility ▪ Fund performance and asset class split is reviewed quarterly by investment advisor/Pensions Committee and officers. ▪ Fund Managers (including LCIV) attend Pension Committee to present quarterly performance reports and challenge by the Committee and Fund Advisor.	D/3	▪ Pensions Committee Training/Awareness – working towards full compliance with CIPFA Knowledge and Skills framework	▪ Induction carried out for new Pension Fund Committee members July 18. ▪ CIPFA Knowledge and Skills Training is on-going. **Further Actions 2018** ▪ Continued monitoring of the LCIV	S151 Officer

File:Pension Fund/Risk Register/Draft Generic (Havering) as at July 18

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 Appendix A

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
	uncertainty of Brexit ▪ Delays in the implementation of the strategy will reduce the effectiveness of the strategy and may impact growth ▪ Delays in compliance with capital calls on new illiquid mandates could result in penalty payments	downturn could result in general fall in investment values				▪ Process in place to fund new illiquid mandates. Officers working closely with investment advisor to ensure timings	

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 Appendix A

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
4	**Risk of failure to comply with legislative requirements** **Cause:** ▪ Lack of appropriate skills/knowledge of The Pensions Regulator, (TPR), MHCLG and CIPFA Guidance, Financial Regulations and accounting standards ▪ Unaware of legislative changes ▪ key person dependency	▪ Reputational damage ▪ Potential for financial penalties from the TPR ▪ Potential for costly legal challenges ▪ Impact on employer contributions, delayed due to non-compliance. ▪ Adverse external audit report	▪ Financial requirements are subject to external and internal audit. Favourable External audit reports since 2015. Internal audit to take place September 2018. ▪ Experienced personnel in place ▪ Continual personal development for all Committee/LPB members and Officers ▪ Induction carried out for new Pension Fund Committee and Local Pension Board members ▪ Legislative changes are reported to the Pensions Committee where required	E/3	None identified at this point.		S151 Officer/ Director of Exchequer and Transactional Services

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 Appendix A

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
	▪ Poor/inaccurate interpretation of the regulations ▪ Failure/inability to administer the pension scheme appropriately		▪ Local Pension Board in place to oversee adherence to the regulations ▪ Active participation in Legislative Consultations where appropriate ▪ External and in house training provided where required ▪ Member of the CIPFA Pensions Network ▪ Participate in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness ▪ Statutory policy documents reviewed annually to ensure compliance with legislation ▪ Access to specialist pension media sources.				

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 Appendix A

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
5	**Risk of inability to manage/govern the Pension Fund and associated services:** **Cause:** ▪ Ineffective / lack of succession planning ▪ Loss of corporate knowledge/expertise ▪ Long term sickness absence ▪ Increase in staff turnover ▪ LCIV monitoring and resourcing ▪ No knowledge base to store experiences/inform	▪ Negative impacts upon service provision ▪ Time delays ▪ Potential for breach of legislation ▪ Financial penalties/ other sanctions ▪ Reputational Damage ▪ Increased costs due to "buying in" external expertise ▪ Employer defaults	▪ Bond or guarantee reviews in place and reviewed every three years as part of valuation process • Attendance at local forum meetings • Attendance at Annual Pension Managers conference • Members of Local Authority Pensions Web • Participates in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness • Attendance at accounting seminars/training • Guidance from external agencies (some will be at a cost)	D/3	• Succession planning required for key personnel • Review / update procedure manuals • Option being assessed for joint administration with Newham to build resilience	• Succession planning in progress • Contract Monitoring officer working to prepare procedure manual. • LPP appointed in Havering in November 17 (already in Newham) are working with Havering to provide seamless administration	S151 Officer/ Director of Exchequer and Transactional Services

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 Appendix A

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
	ation ▪ Lack of resource (Staffing/financial) ▪ ICT failure/Disaster Recovery ▪ Poor pension fund administration including outsourced service by LPP ▪ Poor administration by the employers, payroll providers in the fund ▪ Poor monitoring of employer financial status ▪ Poor communications	▪ Qualified opinion on the accounts by external auditor ▪ Inaccurate data provided by the pension fund employers and payroll providers give rise to inaccurate data and financial reputational consequences such as actuary to set	• Pension Fund uses the service of an external custodian to verify asset values and performance • Pension Fund accounts subject to external audit. • Service is subject to external auditor report of LPP processes • Formal agreement in place with administrator, including SLA's • Authority levels clear • The Council has in place a complaints system to address complaints via the website • Continuous pension training for LPB, Pensions Committee members and staff		• Introduce employer covenants checks • Strengthen the process for Bond reviews. • Development of workflow/process	service. • LPP risk officer employed Contract Monitoring officer is in place and reviews the administration work of LPP including the process for bonds and to ensure guarantees are in place. • LPP works with the Contract	

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 Appendix A

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
Page 83	with stakeholders ▪ Inappropriate investment accounting – including reliance on third party providers. ▪ Excessive charges by suppliers ▪ Employer goes into default, deficit on termination, change of status, financial risk.	contribution rates with a high margin of error. ▪ Higher employer contributions due to poor investment performance ▪ Employer failure to pay scheme contributions on time ▪ Poor Communication with stakeholders	• ICT/ Disaster Recovery in place • Contract Monitoring Officer in place to review the administration work of LPP • Monthly reconciliations to monitor cash flow carried out. • Ee's and Er's contributions reconciled monthly –late payments chased • Fee Invoices checked prior to payment • Monitor audited accounts of third party providers to ensure consistent asset valuation. • Monitor investment managers performance – Fund Managers present at Pension Fund Committee meetings • Union Representative at the		management • Establishment of a statutory Local Pension Board to assist the administering authority in effective and efficient governance of the Havering Pension Fund • Development of Training Matrix	Monitoring Officer to develop/improve workflow processes • Local Pension Board established in 2014 and members are continuing with training and development • Training matrix in place	

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 Appendix A

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
		giving rise to disaffection and actions against the Council ▪ Insufficient assets to meet short term liabilities	Committee				
6	**Risk of failure to on board or exit employers/members effectively** **Cause:** ▪ Delays in internal processing of documentation ▪ Member data incomplete ▪ Poor communications	▪ Delays in collection of contributions from the employers/members ▪ Impacts cash flow ▪ Potential for litigation ▪ Employer	▪ Escalation to Heads of Service ▪ Script in place to deliver to new Academy employers, with feedback process in place (minuted) ▪ Database maintained on all contact details for LGPS communications. ▪ Monthly schedules maintained by the Pensions Administration Team ▪ Tracing agencies used to	D/2	▪ Review of internal processes (particularly legal input) • Completion of TUPE Process Manual • Completion of Admission Policy and an	• Internal Audit for the Pension Fund requested – discussions in place ▪ TUPE manual completed in November 2017 ▪ Admission	S151 Officer/ Director of Exchequer and Transactional Services

File:Pension Fund/Risk Register/Draft Generic (Havering) as at July 18

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 Appendix A

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
Page 85	with stakeholders ▪ Lack of understanding by employers with regard to their responsibilities ▪ Lack of signed admission agreements from Employers	contribution assessment can become out of date ▪ Potential breach of regulations ▪ Incorrect records of new members ▪ External Audit Opinion on internal controls ▪ Employer's liabilities may fall back onto other employers and ultimately local taxpayers.	locate pension fund members ▪ Electronic file of required documents forwarded to new employers ▪ Actuarial assessment completed for all new admission requests to assess the level of risk. ▪ Bonds and suitable guarantees put into place to protect the Fund in case of default. ▪ Funding level of each employer is assessed as part of the triennial valuation and contribution rates set accordingly.		employer manual • Template admission agreement awaiting legal clearance	policy and manual completed in November 2017 includes legal input ▪ Still in progress lead by the risk officer in LPP **Further Actions 2018** ▪ To ensure appropriate admin controls are in place via the internal audit process	

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 Appendix A

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
7	**Risk of Pension Fund Payment Fraud** **Cause:** ▪ Pension overpayments arising as a result of non-notification in change of circumstances ▪ Internal staff fraud ▪ Staff acting outside of their levels of authorisation ▪ Conflict of interest	▪ Financial loss ▪ Reputational damage of Pension Administration team and Council ▪ Litigation / investigation ▪ Internal disciplinary ▪ Reputational damage	▪ Participate in the National Fraud Initiative (bi-annually) ▪ Process is in place to investigate return of payment by banks. ▪ All pension calculations are peer checked and signed off by senior officer ▪ Segregation of duties within the Pensions Administration Team ▪ Segregation of duties between Payroll and Pensions Administration Team ▪ Address checked for deferred pensions prior to payment ▪ Internal audit checks carried out	E/1	• Consider implementation of a monthly mortality check • Investigating usage of external agencies (i.e. Western Union) (for overseas payments) • Implement internal audit process to report on the effectiveness of the internal controls	• We are registered for the "Tell us Once" service supersedes a monthly mortality check • Upon review, the service has not been required to date • Internal audit working on the scope of the audit at	Director of Exchequer and Transactional Services

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 Appendix A

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
Page 87			▪ Signed up for DWP database Tell us Once – DWP inform Havering of deaths relating to contributors to the LGPS fund ▪ Pension Fund bank account checked monthly ▪ Register of interests completed at all board meetings		.	present. **Further Actions 2018** • LPP to investigate the cost/use of ATMOS – a mortality screening application. • To Review the usage of external agencies for overseas payments	

Draft Pension Fund Risk Register oneSource – Havering – (excluding Bexley – Newham) - as at July 2018 Appendix A

Acronyms

CIPFA	Chartered Institute of Public Finance and Accountancy
DWP	Department for Work and Pensions
GAD	Government Actuary's Department
ICT	Information and Communications Technology
LCIV	London Collective Investment Vehicle
LGPS	Local Government Pension Scheme
LPB	Local Pension Board
MHCLG	Ministry of Housing, Communities and Local Government

APPENDIX B

No	GENERIC RISK	HAVERING RISK NO	NEWHAM RISK NO	BEXLEY RISK NO
1	**Inaccurate three year actuarial valuation**	1	1/2	7/8
2	**Incorrect/ Inappropriate Investment Strategy**	2	1	6
3	**growth expectations resulting in financial and reputational risk**	3	5/11	9/10/11
4	**Failure to comply with legislative requirements**	4	9/10/13	14/16/17/18/19
5	**Inability to manage/govern the Pension Fund and associated services**	5	3/6/7/12/14	3/4/12
6	**Failure to effectively "sign up" new employers members**	6	3/4	2/13
7	**Pension Fund Payment Fraud**	7	8	5
	Operational Disaster (ICT Disaster Fire and Flood)	5	-	1
	Excessive charges by suppliers	5	-	1
	Conflicts of Interest (Pension Committee/Local Pension Board)	5	-	15

Risk Registers - Havering/Bexley and Newham

DRAFT GENERIC RISK REGISTER

I have perused the risk registers for all 3 boroughs and tried to incorporate all areas of risk within each register into one generic register.
There are 7 risks within the generic register which are broken down into areas of Risk Title(Objective)/ Consequences of not acheiving the objective(Effect)/ and Controls that are in or to be in place (Mitigations)

I have added a risk number to the Bexley risk register. The table to the left shows the risk numbers for each borough and how they link into the generic register.

No of risks on Risk Register		
Havering	7	Risk/Cause and Effects/Mitigations and actions to
Newham	14	Details of risks including consequences/ Controls in place/% complete/Date of next
Bexley	19	Type of Risk/Control Measures/Latest Review/Next

No	RISK	HAVERING
1	Inaccurate three year actuarial valuation	●
2	Incorrect/ Inappropriate Investment Strategy	●
3	Failure of investments to perform in line with growth expectations resulting in financial and reputational risk	●
4	Failure to comply with legislative requirements	●
5	Inability to manage/govern the Pension Fund and associated services	●
6	Failure to effectively "sign up" new employers members	●
7	Pension Fund Payment Fraud	●
8	Operational Disaster (ICT Disaster Fire and Flood)	●
9	Excessive charges by suppliers	
10	Conflicts of Interest (Local Pension Board)	
11	Failure to comply with financial regulations and accounting standards may lead to an adverse audit report	

NEWHAM	BEXLEY
●	●
●	●
●	●
●	●
●	●
●	●
●	●
	●
	●
	●
●	

no of Risks	
Havering	7
Newham	14
Bexley	19

Risk/Cause and Effects/Mitigations and actions to take
Details of risks including consequences/ Controls in place/% complete/Date of next review
Type of Risk/Control Measures/Latest Review/Next Review

Havering
LONDON BOROUGH

PENSIONS COMMITTEE

Subject Heading:	COMMUNICATIONS STRATEGY STATEMENT FOR THE PERIOD 2018-2021
SLT Lead:	Jane West
Report Author and contact details:	Caroline Berry 01708 432185 caroline.berry@onesource.co.uk
Policy context:	Local Government Pension Scheme Regulations 2013.
Financial summary:	To achieve savings where possible through effective and efficient communications.

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

The report advises Members of the current Communication Strategy of the London Borough of Havering Pension Fund, in relation to the Local Government Pension Scheme.

RECOMMENDATIONS

Members consider and approve the Pension Fund Communications Strategy for the three year period to November 2021, attached as appendix A.

REPORT DETAIL

1. Regulation 61 of the Local Government Pension Scheme Regulations 2013 requires the Administration Authority to prepare and publish a written statement covering communications with members and scheme employers.

2. The statement must set out the following:
   - Communications with members, representatives of members, prospective members and scheme employers
   - The provision of information and publicity about the scheme to the above
   - Format, frequency and distribution method of the information or publicity
   - The promotion of the scheme to prospective members

3. The Communication Strategy aims are to communicate in the most appropriate medium for the audience and to better educate the various stakeholders of the benefits of the Local Government Pension Scheme.

4. It also aims to utilise modern media that is cost effective and efficient , placing a greater emphasis on the use of the pension website www.yourpension.org.uk/handr, including the self service facility, and the Local Pensions Partnerships secure portal for employers YourFund.

5. Appendix A to this report is the Havering Pension Fund Communication Strategy 2018-2021

IMPLICATIONS AND RISKS

Financial implications and risks:

There is a risk of breaching the Fund's statutory obligations if communications with its scheme members, member representatives, prospective members and scheme employers is not met.

Budgetary provisions are available and any communication costs are met by the Pension Fund either as a direct charge to the fund or via contract costs from the third party administrative provider or as recharge from the council.

Legal implications and risks:

The relevant legal duties are set out in the body of the Report and there are no other apparent legal implications.

Human Resources implications and risks:

There appear to be no HR implications or risks arising directly as a result of this report.

Equalities and Social Inclusion Implications and Risks

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

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

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

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants. We will ensure that disabled people with sensory impairments are able to access the strategy.

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HAVERING PENSION FUND

COMMUNICATION STRATEGY

2018-2021

Havering Pension Fund
Pensions Communications Strategy 2018-2021

Introduction

An effective communications strategy is vital for any organisation which strives to provide a high quality and consistent service to their stakeholders.

The Communications Strategy is required by the provisions of Regulation 61 of the Local Government Pension Scheme Regulation 2013. The provision requires the Administering Authority to:

(1) Prepare, Maintain and publish a written statement setting out its policy concerning communications with:

- (a) Members
- (b) Representatives of members
- (c) Prospective members
- (d) Scheme employers

(2) In particular the statement must set out its policy on:

- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employers

The Fund aims to use the most appropriate communications medium for the audiences receiving the information. This may involve using more than one method of communication.

Pension Fund Administration

From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council (LCC) who have engaged the Local Pensions Partnership (LPP) to undertake their pensions portfolio. LPP was formed in 2016 through a collaboration between LCC and the London Pensions Fund Authority (LPFA) and provides pension services to the Local Government Pension Scheme, police, firefighters and other public sector funds.

Communication Responsibilities and Resources

The provision of timely, relevant information in a suitable format is key to ensuring efficient and effective communications. It is important that we consider the costs in terms of resource and staff time for all communications and work with the LPP to ensure there are appropriate systems and processes in place to facilitate these communications with our stakeholders.

Communications with Scheme Members

Our aims for communicating with our scheme members are:

- to better educate members of the benefits of the scheme to reduce the general queries being directed to the LPP administration team
- to encourage the use of the pension scheme website and registration to My Pension Online - Member Self Service.

The Key actions will be:

- continual review of employee communication methods to ensure they are effective and efficient
- on-going promotion of the Havering Pension Scheme website and Member Self Service
- Working with LPP to ensure communications are relevant and timely

Action	**Audience**	**Media**	**End of Year Review 2019**
Review and update the pension website www.yourpension.org.uk/handr	All	Web	
Promote the use of the pension website www.yourpension.org.uk/handr	All	Web	
Promote My Pension Online – Member Self Service	Active and Deferred	Web	
Explore the development of My Pensions Online – Member Self Service for pensioner members	Pensioner	Web	
Ensure relevant, accurate and timely communications are sent to all members	All	Paper or electronic	

The pension scheme will provide the following communications as required, in addition to day to day individual communications with members.

Communication	Media	Frequency of Issue	Distribution	Audience
Yourpension.org.uk/handr Pension Website	Web	Continually available. Updated as required	Advertised on all communications	All
Scheme booklet	Web	Continually available. Updated as required	For viewing as required	All
Factsheets	Web	Continually available. Updated and replaced as required	For viewing as required	All
Newsletters and scheme updates	Web or paper	As required	For viewing as required. Post to home address for targeted communication	All
Forms	Web or paper	As required	Available to download or post to home address	All
Annual Benefit Statements	Web or paper if opted out of online statements	Annually	For viewing as required. Members are informed of availability via personal email, email to employers or internal Global News	Active and Deferred
Road shows/ Workshops	Face to face	When required	Advertised via email, Global News, Posters and employers	Active
Pensioner payslips	Paper	1st pension payment and every April, May and October	Post to home address	Pensioner
Notice of Pensions Increase	Paper	Annually in April	Post to home address with April payslip	Pensioner

Internal Disputes Resolution Procedure	Paper or Web	Continually available. Updated as required	Post to home address or available to download	All
Annual Report and Accounts	Web	Continually available. Replaced annually	For viewing as required.	All

Explanation of communications

Pension Website - The website will provide scheme specific information, forms, documents (such as newsletters and report and accounts), factsheets, links to related sites including My Pension Online Member Self Service and contact information. We continue to review and develop this site in partnership with LPP.

Scheme booklet - A booklet providing detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to purchase additional pension.

Factsheets – These are leaflets that provide information in relation to specific topics, such as redundancy, protections following a drop in pay, survivor benefits and pensions increase.

Newsletters - Newsletters are issued as required, usually when a significant change to the scheme occurs. Pensions Increase newsletters are sent annually to advise pensioner members of the increase to their pension.

Forms – Many of the required LGPS forms are available on the pension website such as opt out form, 50:50 or Main Scheme election form and expression of wish form.

Annual Benefit Statements – For active members these include the current value of benefits as well as the projected benefits to their normal retirement date. The associated death benefits are shown along with details of any individuals the member has nominated to receive the lump sum death grant. For deferred members these show the current value of the pension benefits, associated death benefits and details of any individuals the member has nominated to receive the lump sum death grant. These released at the end of August and are available on My Pension Online – Member Self Service. Members can opt out of the online service and elect to receive a paper copy sent to their home address.

Road shows – These are available, when required, providing staff with the opportunity to have a face to face conversation about their pension rights.

Pensioner payslips – The payslips are sent when a member receives their first pension payment, if the monthly amount varies by more than £5, each April and May. They are posted to the pensioner's home address.

Internal Disputes Resolution Procedure – A formal notification of the procedure to follow in the event that a dispute cannot be resolved by the LPP pension administration team or the Havering Pensions Projects or Contracts Manager

Annual Report and Accounts – Detailed document providing information regarding the value of the Pension Fund during the financial year, income, expenditure and other scheme based information such as the number of scheme members and scheme employers. This is published and available on the pensions website.

Communications with Prospective Scheme Members

Our aims for communicating with our prospective scheme members are:
- to increase the take up of the LGPS
- to better educate members of the benefits of the scheme to reduce the general queries being directed to the LPP administration team

The Key actions will be:
- review of communication methods to ensure they are effective and efficient
- ensuring automatic enrolment and re-enrolment is well communicated

Action	Audience	Media	End of Year Review 2019
Ensure pension forms are included in starter packs	New employees	Paper	
Review and update the pension website	All	Web	
Work with employer to ensure automatic enrolment is correctly communicated	Existing employee	Paper or electronic	

The pension scheme will work with employers to provide the following communication as required.

Communication	Media	Frequency of Issue	Distribution	Audience
Pensions Joiner Option Form	Paper	On commencing employment	Via employers	New employees
Yourpension.org.uk/handr Pension Website	Web	Continually available. Updated as required	Advertised on all communications	All
Scheme booklet	Web	Continually available. Updated as required	For viewing as required	All

Education Sessions	Face to Face	As required	Part of induction workshops	New Employees
Annual Report and Accounts	Web	Continually available. Replaced annually	For viewing as required.	All

Explanation of communications

Pensions Joiner Option Form – Form provided to all new employees which provides the details of the pension scheme website and allows them to advise of any previous pension entitlements.

Pension Website - The website will provide scheme specific information, forms, documents (such as newsletters and report and accounts), factsheets, links to related sites including My Pension Online Member Self Service and contact information. We continue to review and develop this site in partnership with LPP.

Scheme booklet - A booklet providing detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to purchase additional pension.

Education sessions – A talk providing an overview of the benefits of the pension scheme and an opportunity to ask questions.

Annual Report and Accounts – Detailed document providing information regarding the value of the Pension Fund during the financial year, income, expenditure and other scheme based information such as the number of scheme members and scheme employers. This is published and available on the pensions website.

Communications with Scheme Employers

Our aims for communicating with our scheme employers are:

- to improve relationships
- to assist them in understanding their role as a scheme employer
- to assist them in understanding their funding/cost requirements
- to work together to achieve accurate scheme actuary data submissions
- to ensure smooth staff transfers

The Key actions will be:

- offer induction meetings for all new scheme employers
- assist with the implementation of Your Fund, the LPP's online submission portal
- on-going promotion of the employer section of the Havering pension website
- working with relevant parties to admit new employers to the fund

Action	Audience	Media	End of Year Review 2019
Maximise the use of the newly developed ERM employer communication database on Altair	Employers	System	
Meet with all new scheme employers to discuss responsibilities and requirements	Employers	Face to face	
Review and update the pension website	Employer	Web	
Work with LPP and Scheme employers to implement Your Fund.	Employer	Web	
Work with LPP and Scheme employers to ensure accurate and timely data submissions	Employer	Email, phone calls or face to face	

The pension scheme will provide the following communication to employers as required.

Communication	Media	Frequency of Issue	Distribution	Audience
Contact sheet	electronic	Annually	By email	All
Induction meeting	Face to Face	On becoming a scheme employer	By email	New scheme employers
Pension Website yourpension.org.uk/handr	Web	Continually available. Updated as required	Advertised on all communications	All
Tupe Manual and Admissions Policy	Web	Continually available. Updated as required	For viewing as required	Scheme employers and potential admitted bodies
Employer roadshows	Face to Face	When required following scheme changes	Advertised via email to employer	All

Annual Report and Accounts	Web	Continually available. Replaced annually	For viewing as required.	All
Pension Fund Valuation reports	Electronic	Every three years	Via email	All
Funding Strategy Statement	Web	Continually available. Replaced every three years and updated as required	For viewing as required.	All

Explanation of communications

Contact sheet – A form distributed annually to all scheme employers to ensure contact details are kept up to date. Details are recorded on the ERM system on Altair

Induction Meeting – A meeting offered to all new academies and admitted bodies to discuss roles and responsibilities. An information leaflet is being updated to accompany the meeting and will be made available on the pension website once completed

Pension Website - The website will provide scheme specific information, forms, documents (such as newsletters and report and accounts), factsheets, links to related sites including My Pension Online Member Self Service and contact information. We continue to review and develop this site in partnership with LPP

Tupe Manual and Admissions Policy – These documents are relevant to Letting Authorities that are looking to outsource a service to a third party supplier

Employer Roadshows – Provided by LPP as required following a significant change in the scheme

Annual Report and Accounts – Detailed document providing information regarding the value of the Pension Fund during the financial year, income, expenditure and other scheme based information such as the number of scheme members and scheme employers. This is published and available on the pensions website

Pension Fund Valuation Reports – A report issued every three years setting out estimates assets and liabilities of the Fund as a whole and setting individual employer contribution rates for the next three year period

Funding Strategy Statement – A summary of the Fund’s approach to funding its liabilities, including reference to the Fund’s other policies although it is not an exhaustive statement of policy on all issues.

Communications with Representatives of Members

1. Pensions Committee

Our aims for communicating with Pensions Committee are:

- to provide information to enable the Committee to make decisions delegated under the Council's constitution
- to provide information to ensure the Committee are kept informed of pension related matters
- to ensure the Committee are aware of their responsibilities in relation to the Scheme

The Key actions will be:

- to submit Committee reports, which have been reviewed by the relevant Council business partners and senior manager
- To arrange training sessions when required

Action	Audience	Media	End of Year Review 2019
To submit Committee reports in line with the annual plan and as and when required	Pensions Committee Members	Paper and web	
To arrange required training as and when required	Pensions Committee Members	Face to Face	

The pension scheme will provide the following communication to Pensions Committee Members as required.

Communication	Media	Frequency of Issue	Distribution	Audience
Pensions Committee Reports	Paper and Web	Quarterly and as and when required	By email and available on the Havering.Gov website	Pension Committee Members and Trade Union representatives
Pensions Committee Briefings	Face to face	Quarterly and as and when required		Pensions Committee Members and Trade Union representatives

Training sessions	Face to face	When there is a new Pensions Committee and as and when required	By email	Pensions Committee Members and Trade Union representatives

Explanation of communications

Pensions Committee Reports – Formal reports written by Pension Fund officers and reviewed by Business Partners and a Senior Leadership Team member. Published on the havering.gov.uk website

Pension Committee Briefings – Pension Fund officers attend each Committee meeting and provide a verbal briefing on each Committee report

Training sessions – Provided by Pension Fund officers, advisors or external experts on investment or administration related matters. Training is shared with the Local Pension Board members where applicable

2. Local Pensions Board

Our aims for communicating with the Local Pensions Board are:

- to provide information to enable the board to assist the Scheme Manager in executing their duties
- to provide information to ensure the board are kept informed of pension related matters
- to provide training with regards to investment and administration matters

The Key actions will be:

- to submit reports on areas identified for review by the Board.
- To arrange training sessions with Fund officers, advisors and external experts when required

Action	**Audience**	**Media**	**End of Year Review 2019**
To submit reports in line with the Board work plan and any additional areas identified at meetings	Local Pension Board	Paper and web	
To arrange required training as and when required	Local Pension Board	Face to Face and online	

The pension scheme will provide the following communication to the Local Pension Board as required.

Communication	Media	Frequency of Issue	Distribution	Audience
Local Pension Board Reports	Paper and Web	Quarterly and as and when required	By email and available on the Havering.Gov and yourpension.org.uk websites	Local Pension Board
Local Pension Board Briefings	Face to face	Quarterly and as and when required	Fund officers attend each meeting	Local Pension Board
Training sessions	Face to face and online	When a new members is appointed. Continual self- development is also required	Face to face delivered by Fund officers and targeted online training	Local Pension Board

Explanation of communications

Local Pension Board reports – Written by Pension Fund officers to provide a formal update to a particular area of work

Local Pension Board briefings – Pension Fund officers attend each Board meeting to provide a verbal overview of written reports and to provide updates on any on-going work

Training sessions – Provided by Pension Fund officers, advisors or external experts on investment or administration related matters. Targeted training is also available for Local Pension Board members online via the Pensions Regulator website. Training is shared with the Pensions Committee members where applicable

3. Havering and oneSource Managers

Our aims for communicating with the Havering and oneSource managers are:

- to provide information to be able to make decisions delegated under the Council's constitution
- to provide accurate, timely and relevant information on request
- to ensure they are aware of any pension related employer costs

The Key actions will be:

- to submit executive decision reports on areas identified as requiring management approval.
- to ensure that employer requests for pension estimates are monitored against the contractual key performance indicator and include employer costs

Action	Audience	Media	End of Year Review 2019
To write key or non-key executive decision reports as required in line with the Council’s constitution	Senior or oneSource Management	Paper or email	
To ensure the provision of employer estimates is in line with the contractual agreement	HR and Heads of Service	Paper or email	

The pension scheme will provide the following communication to managers as required.

Communication	Media	Frequency of Issue	Distribution	Audience
Key and non-key executive decision reports and background papers where required	Paper or electronic	As and when required	By email	Officer delegated responsibility under the Council’s constitution
Employer requested pension estimates, usually for redundancy, flexible retirement or ill health retirement	Paper or electronic	As requested	By email	HR or Head of Service

Explanation of communications

Key and non key executive decision report - Formal reports written by Pension Fund officers and reviewed by Business Partners and agreed by a Senior Leadership Team member in accordance with the Council’s constitution.

Employer requested pension estimates – A detailed statement of the scheme member’s pension benefits and any cost to the employer due to the payment of the pension to the member.

4. Other Stakeholders

Pension Fund Manager (Finance)
The Pension Fund Manager (Finance) responds to staff, employer and other enquiries. Skills and knowledge are kept up to date through participation in seminars and conferences.

Pension Projects and Contracts Manager
The Pensions Projects and Contracts Manager is responsible for monitoring the administration contract with the Local Pensions Partnership. Monthly client reviews take place to monitor the contract and check the service level agreements are being met. They are also responsible for maintaining relationships with scheme employers, trade unions and other relevant stakeholders.

Investment Fund Managers
Day to day contact between the Pension Fund Manager (Finance) and the investment fund managers is maintained. Each fund manager is required to present their performance reports to the Pensions Committee on a cyclical basis, unless performance concerns override this.

Trade Unions
Trade unions in the London Borough of Havering are valuable ambassadors for the Pension Scheme. They ensure that details of the Local Government Pension Scheme's availability are brought to their members' attention and assist in negotiations under TUPE transfers in order to ensure, whenever possible, continued access to the Scheme.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE

Subject Heading:	FUNDING STRATEGY STATEMENT - UPDATE
SLT Lead:	JANE WEST
Report Author and contact details:	Debbie Ford Pension Fund Manager (Finance) 01708432569 Debbie.ford@onesource.co.uk
Policy context:	Administration Authority must prepare, maintain & publish a statement setting out their Funding Strategy in accordance with regulations
Financial summary:	None directly

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

The Funding Strategy Statement sets out the objectives of the London Borough of Havering's strategy, in its capacity as Administering Authority, for the funding of the London Borough of Havering Pension Fund.

The Statement has been updated to reflect changes made under the LGPS (Amendment) Regulations 2018 that took effect from the 14 May 2018.

RECOMMENDATIONS

That the Committee:

- Agree the Funding Strategy Statement be updated to reflect regulation changes as shown in **Appendix A** attached.

REPORT DETAIL

1. The Funding Strategy Statement (FSS) is a Statement that has been prepared in accordance with Regulation 58of the Local Government Pension Scheme Regulations (LGPS) 2013 (as amended) and updated to reflect a change made in the LGPS (Amendment) Regulations 2018 which came into effect on the 14th May 2018.

2. The new regulations introduced 'exit payments' for the Fund to employers who leave the Fund and are assessed as being in surplus by the actuary. Previously, employers who were in deficit when they left the Fund had to make a termination payment, any surplus was retained by the Fund. The FSS now needs to be updated to meet these new regulations. The changes made can be seen in the tracked changes version attached as Appendix A, prepared by the Funds Actuary (Hymans) but also set out where indicated in ***bold*** below***:***

3. **<u>Changes made to the FSS:</u>**

4. **(a) Current wording - Page 17*:*** 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.

   (b) Changed to*:* 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, ***an exit credit will be paid to the Admission Body within three months of the cessation date (or another date agreed between the Administering Authority and the Admission Body).***

5. **(a) Current wording - Page 18*:*** All Transferee Admitted Bodies (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.

(b) Changed to*:* 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. ***Any exit credit as a result of a surplus on cessation would be paid to the TAB within 3 months (or another date agreed by the Administering Authority and the TAB).*** These sums may be subject to a **'risk sharing**' arrangement with the Scheme employer, **a bond, an indemnity or other type of guarantee**.

6. **(a) Current wording - Page 21:** 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.

   (b) Changed to: In general, an employer ceasing in the Fund due to the departure of the last active member, will pay a cessation debt ***or receive an exit credit*** on an appropriate basis.

7. **(a) Current wording – Page 21**: In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund.

   (b) Changed to*:* In exceptional circumstances, the Fund may permit an employer with no remaining active members and ***a cessation deficit*** to continue contributing to the Fund.

8. **(a) Current wording – Page 43:** 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 '**'risk sharing'**' arrangement with the scheme employer.

   (b) Changed to: At the natural end of a contract or when the last active member of an Employer leaves active service, a cessation valuation is carried out to determine the final contribution due ***or exit credit*** to be paid to the Employer. The final contribution or exit credit may be subject to a 'pass-through' arrangement with the scheme employer.

9. Any references to the Department of Communities & Local Government (DCLG) has been changed to the Minister for Housing, Communities and Local Government (MCHLG) to reflect the change in the name of the Government Department.

10. Regulation 58(3) of the LGPS Regulations 2013 (as amended) states that following a material change in its policy the authority should consult with such persons it considers appropriate. In conjunction with the Funds actuary it has been determined that the updates are not material and that there were no persons it was appropriate to consult for such minor changes. The FSS

is reviewed in detail at least every three years as part of the triennial valuation and this statement will next be reviewed and consulted upon as part of the March 2019 valuation process.

11. Following agreement by the Committee the FSS will be updated where required and published on the Council's website.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising directly, however the objective of the Fund's strategy is to ensure the long term solvency of the Fund. This will ensure that sufficient funds are available to meet all members'/dependents' benefits as they fall due for payment.

There is a risk that for those Admitted Bodies who joined the fund before the new regulations were introduced that an exit credit payment may be payable in the near future. Officers will liaise with the Fund's Actuary to determine the level of risk of this likelihood and what mitigations can be implemented.

Legal implications and risks:

The changes made to the FSS ensure compliance with the amended Regulation 64 of the LGPS Regulations 2013 .brought into force on 14 May 2018.

No consultation has been deemed necessary as the changes are not considered to be material.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

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

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

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

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

BACKGROUND PAPERS

None.

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London Borough of Havering Pension Fund

Funding Strategy Statement

~~March 2017~~Revised November 2018

Contents

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~~MHCLG 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~~MHCLG 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, an exit creditwill be paid to the Admission Body within three months of the cessation date (or another date agreed between the Administering Authority and the Admission Body) ~~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. Any exit credit as a result of a surplus on cessation would be paid to the TAB within three months (or another date agreed by the Administering Authority and the TAB). These sums may be subject to a 'pass-through' arrangement with the Scheme employer, ~~but may not be covered by~~ a bond, an indemnity or other type of 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 or receive an exit credit 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 and a cessation deficit 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~~Minister for Housing, Communities & Local Government (~~DCLG~~MHCLG) 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~~MHCLG 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~~MHCLG 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~~MHCLG 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~~ Minister for Housing, Communities & Local Government (~~DCLG~~MHCLG) 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

Risk	Summary of Control Mechanisms
	warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
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

Risk	Summary of Control Mechanisms
	retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms 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~~MHCLG 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.

Risk	Summary of Control Mechanisms
	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 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~~MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. ~~DCLG~~MHCLG 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 or exit credit to be paid to the Employer ~~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.

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PENSIONS COMMITTEE – FORWARD PLAN / TRAINING

FORWARD PLAN	AGENDA ITEM	PLANNED TRAINING
11 December 2018	• Quarterly Monitoring Report on Pension Fund to end of September 2018: LGIM (Funds Passive Equity Manager) • Annual review of Fund Managers Voting & Engagement • Charging Strategy • Local Pension Board minutes • Forward Plan	Associated Training
19 March 2019	• Quarterly Monitoring Report on Pension Fund to end of December 2018: London CIV (Pooling manager) plus Ruffer • Local Pension Board minutes • Forward Plan	Associated Training

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