



# Havering

L O N D O N   B O R O U G H

## PENSIONS COMMITTEE AGENDA

<b>7.00 pm</b>	<b>Thursday 1 October 2020</b>	<b>Zoom</b>
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Members 7: Quorum 3

### COUNCILLORS:

**Conservative Group  
(3)**

John Crowder  
(Chairman)  
Osman Dervish  
Jason Frost

**Residents' Group  
(1)**

Stephanie Nunn

**Upminster &  
Cranham Residents  
Group (1)**

Ron Ower

**Labour Group  
(1)**

Keith Darvill

**North Havering  
Residents' Group  
(1)**

Martin Goode (Vice-Chair)

**Trade Union Observers**

**(No Voting Rights) (2)**

Andy Hampshire, GMB

**Admitted/Scheduled Bodies  
Representative**

**(Voting Rights) (1)**

**For information about the meeting please contact:  
Luke Phimister 01708 434619  
luke.phimister@onesource.co.uk**

## **Protocol for members of the public wishing to report on meetings of the London Borough of Havering**

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

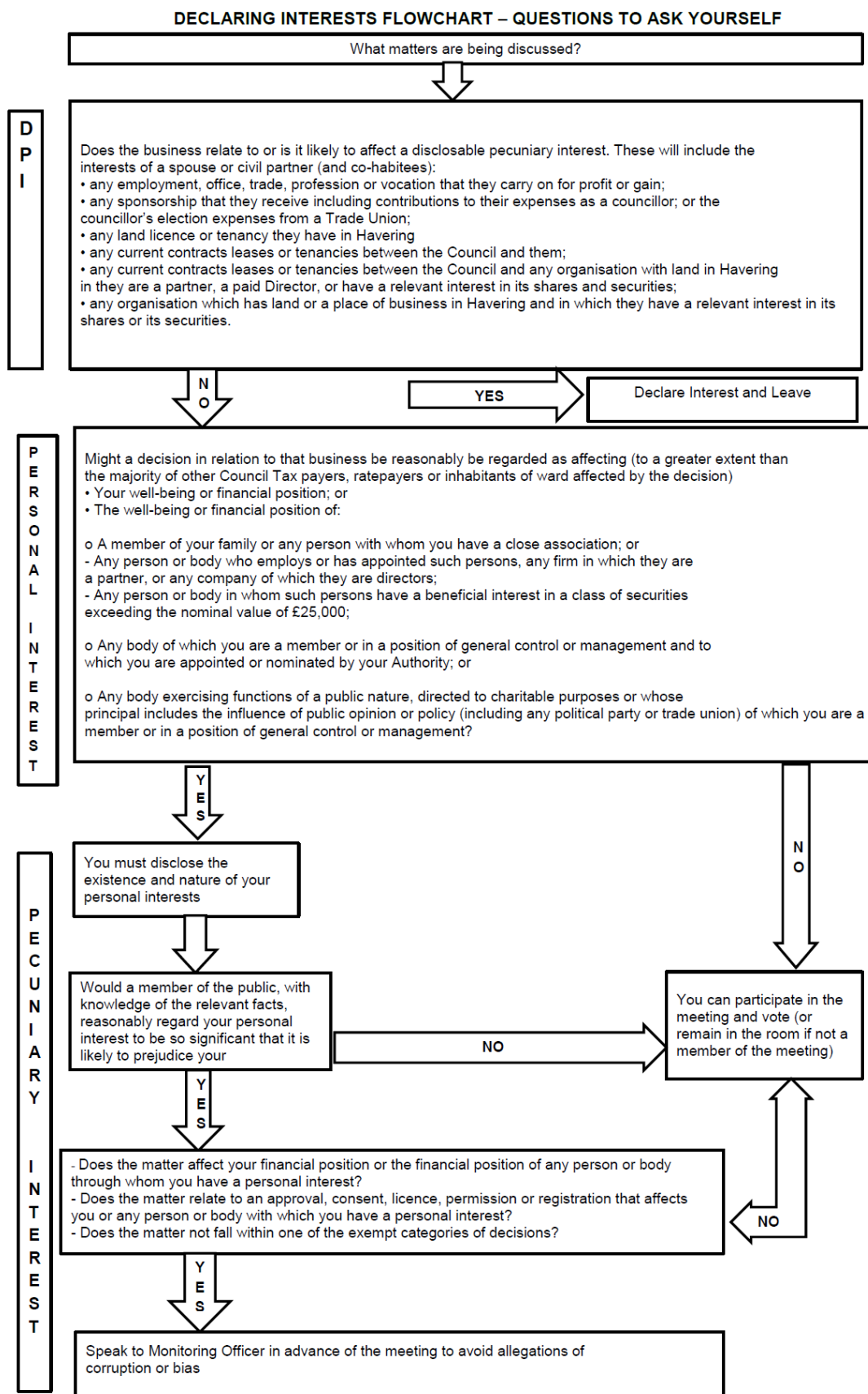
Reporting means:-

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

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

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

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



## **AGENDA ITEMS**

### **1 CHAIRMAN'S ANNOUNCEMENTS**

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

### **2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS**

(if any) - receive

### **3 DISCLOSURE OF INTERESTS**

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

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

### **4 MINUTES OF THE MEETING** (Pages 1 - 4)

To approve as correct the minutes of the meeting held on 29<sup>th</sup> July 2020 and authorise the Chairman to sign them.

### **5 ADMISSION OF HARRISON CATERING TO THE LBH PENSION FUND** (Pages 5 - 10)

Report attached.

### **6 PENSION FUND PERFORMANCE FOR QUARTER ENDING JUNE 2020** (Pages 11 - 64)

Report attached. 1 public and 2 exempt appendices are also attached.

### **7 INVESTMENT STRATEGY UPDATE** (Pages 65 - 102)

Report and exempt appendix attached.

### **8 LGPS AMENDMENT** (Pages 103 - 188)

Report and appendices attached.

### **9 PENSION FUND ANNUAL REPORT** (Pages 189 - 416)

Report and appendix attached.

**Andrew Beesley**  
**Head of Democratic Services**

**MINUTES OF A MEETING OF THE  
PENSIONS COMMITTEE  
Town Hall, Main Road, Romford  
29 July 2020 (7.00 - 8.45 pm)**

**Present:**

**COUNCILLORS**

<b>Conservative Group</b>	John Crowder (Chairman), Osman Dervish and Jason Frost
<b>Residents' Group</b>	Stephanie Nunn
<b>Labour Group</b>	Keith Darvill
<b>North Havering Residents Group</b>	Martin Goode

All decisions were taken with no votes against.

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

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

There were no apologies for absence.

**151 DISCLOSURE OF INTERESTS**

There were no disclosures of interests.

**152 MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 10 December 2020 were agreed as a correct record and, due to COVID-19, will be signed by the Chairman at a later date.

**153 ADMISSION OF CATERLINK (LIFE EDUCATION TRUST)**

The report presented to the committee asked for permissions for Caterlink Limited to be admitted into the Havering Pension Fund.

It was proposed that 6 members of staff would be admitted for a minimum of 3 years on a closed admission arrangement. Hymans provided liability of 40.8% with an indemnity of £55k by way of a bond secured by Caterlink to protect the fund.

The Committee **agreed** the admission of Caterlink Limited into the Havering Pensions Fund subject to:

- Havering and Caterlink signing up to an admission agreement, and;
- An indemnity of £55k by way of Caterlink securing a bond.

#### 154 **INVESTMENT STRATEGY STATEMENT**

The report presented to the committee, which had been postponed from the cancelled March 2020 meeting, proposed the revised investment strategy statement.

Members were reminded that they agreed a change of policy wording at the December 2019 meeting in relation to ESG matters and members noted that the closing date for consultation was 16 March 2020. No comments to the consultation were received.

An officer from Hymans explained to the Committee that since the original draft was put forward to the March meeting a proposal to change to the benchmark allocations was appropriate to reflect the finalisation of the bulk transfer settlement for the colleges. Proposed an increase to the global equities benchmark to 40% (from 35%) and a reduction to the multi asset benchmark to 22.5% (from 27.5%). Members also considered the change of the maximum allocation for multi-assets reduced to 40% from 50% and the maximum allocation to infrastructure was increased from 10% to 15%.

The Committee **considered** the report and **agreed** the proposed changes to the maximum multi-asset and infrastructure allocations and to the change in the benchmark allocations proposed. The Committee **noted** the compliance report set out in Appendix B.

#### 155 **PENSION FUND ACCOUNTS**

The report put before the Committee provided an extract of the unaudited statement of accounts covering the Pension Fund. Members noted that changes had been made to the publication deadlines due to COVID-19 and publication was not necessary until the end of August 2020 as the audit date has been postponed until 30 November 2020.

The statement had been completed in May 2020 and there had been no key changes by CIPFA that had not been covered in the 2018/19 accounts. Members noted a decrease in net asset of the fund by £4million over the year which was a minimal change given the potential effects of COVID-19. The outcome of the audit will be submitted to Audit Committee when published. Officers explained that there had been an increase of audit fees to £52k.

Officers presented the accounts and highlighted key movements from the prior year. Members noted the net decrease of £4m is compiled of a change

in the market value of assets of (£20m), investment income of £10m, net additions of cash of £10m and offset by management expenses of (£4m).

The Committee **noted** the accounts as at 31st March 2020.

156 **PENSION FUND BUSINESS PLAN**

The report presented to the Committee gave details on the work done by the Committee in the previous year and set out the work to be done in the upcoming year.

The Committee **agreed** the business plan for the year 2019/20.

157 **COVID-19 AND FUNDING RISKS**

The report put before the Committee updated members on the impact and risks associated with the COVID-19 pandemic produced by the Funds Actuary Hymans.

Members noted that the situation would be kept under review.

The Committee **noted** Hymans report and recommendations set out in the report and noted the risks identified and mitigations in place. The Committee **agreed** to adopt the Pensions Regulator guidance when considering suspension of contribution rates.

158 **EXCLUSION OF THE PUBLIC**

159 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 20**

The report presented to the members of the Committee provided an overview of the performance of the Fund Investment, Manager Monitoring and any Local Government Pension Scheme (LGPS) updates for the quarter ending 31 March 2020.

The Committee **considered** the Hymans reports, the quarterly reports from investments managers and **noted** the analysis of the cash balance

160 **FUND MANAGER REVIEW - VOTING AND ENGAGEMENT**

The report received by the Committee gave a summary on the responsible investment activities of the Fund's managers for the year to 30 June 2019.

Members noted the report had been postponed from the cancelled March 2020 meeting.

The Committee **noted** Hymans summary review of fund manager and engagement activity and **considered and agreed** the potential next steps as outlined in Hymans report.

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**Chairman**



## PENSIONS COMMITTEE – 1<sup>st</sup> OCTOBER 2020

**Subject Heading:**

The admission of Harrison Catering Services Limited in to the London Borough of Havering Pension Fund for the provision of services to Loxford Schools Trust (specifically for Gaynes Academy within that Trust)

**SLT Lead:**

Jane West  
Section 151 Officer

**Report Author and contact details:**

Caroline Berry  
Pensions Projects and Contracts Manager  
01708 432185  
[Caroline.berry@havering.gov.uk](mailto:Caroline.berry@havering.gov.uk)

**Policy context:**

Local Government Pension Scheme Regulations 2013. Schedule 2 part 3

**Financial summary:**

The Pension Fund Actuary has assessed the level of Indemnity and Loxford School Trust will act as guarantors. The employer contribution rate has been set at 35.7%.

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

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

## **SUMMARY**

1. The purpose of this report is to request the London Borough of Havering Pension Committee agree to the proposed closed agreement admission of Harrison Catering Services Limited into the London Borough of Havering Pension Fund under the provisions of The Local Government Pension Scheme (LGPS) Regulations 2013, Schedule 2, Part 3 and follows New Fair Deal Guidance. This is due to the TUPE of catering staff from Gaynes Academy to Harrison Catering Services Limited for the provision of catering services.

## **RECOMMENDATIONS**

2. That the admission of Harrison Catering Services Limited into the London Borough of Havering Pension Fund as an admitted body to enable 1 member of staff who transferred from Gaynes Academy to continue membership of the LGPS be agreed, subject to:
  - (a) All parties signing up to an Admission Agreement, and
  - (b) Harrison Catering Services Limited securing a Guarantee in an approved form from Loxford School Trust to protect the pension fund.

## **REPORT DETAIL**

3. Harrison Catering Services Limited succeeded in winning the contract to provide catering services to Gaynes Academy. The contract with Gaynes Academy is for a minimum of three years and commenced on 01 April 2020.
4. The contracts of employment of affected staff transferred when the catering services transferred from Gaynes Academy to Harrison Catering Services Limited on 1 April 2020. The Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) Amendment Regulations 2014 ("TUPE") protects the employment terms and conditions of the relevant employees except for pension rights which in this instance are covered under the New Fair Deal Guidance 2013. 1 employee was a member of the LGPS on the transfer date.
5. New Fair Deal Guidance is a non-statutory policy setting out how pension issues are to be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services. The guidance is needed to address Pension rights not covered by TUPE.

6. The Pension Regulations require the LGPS Pension Funds to allow an admission to its scheme if the organisation is one that provides or which will provide a service or assets in connection with the exercise of a function of a scheme employer, as a result of the transfer of the service or assets by means of a contract or other arrangement.
7. Following guidance from MHCLG, where a transferee admission body and the scheme employer undertake to meet the relevant requirements of Schedule 2, Part 3, an administering authority cannot decline to admit to the LGPS the eligible employees of the transferee admission body. The terms on which the admission is permitted are noted in the Admission Agreement for the purposes of these Regulations.
8. Harrison Catering Services Limited falls within the definition contained in Schedule 2, Part 3 of the LGPS Regulations 2013 and as such is eligible to become a transferee admission body. Under Schedule 2, Part 3, the administering authority must admit to the scheme the eligible designated employees of the transferee admission body, provided the transferee admission body and the scheme employer undertakes to meet the relevant requirements of the regulations through an Admission Agreement. Legal engrossment of the admission agreement is subject to the service transfer taking place.
9. The London Borough of Havering will seek to sign appropriate transferee Admission Agreements to allow Harrison Catering Services Limited to be admitted to the London Borough of Havering Pension Fund. When the Admission Agreement is formed Harrison Catering Services Limited will be required to pay contribution rates as determined by the Fund Actuary. This has been set initially at 35.7% of pensionable pay.

<b>IMPLICATIONS AND RISKS</b>
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**Financial implications and risks:**

10. Continued membership in the LGPS means there is no loss to contributions into the Fund. As noted in the report, employer contributions to be paid by admitted bodies are determined by the Fund's Actuary. Harrison Catering Services Limited's employer contribution rate has been set at 35.7%. Harrison Catering Services are allocated a share of assets to ensure they are fully funded at the transfer date.
11. The Fund's actuary has determined a bond or indemnity is required to cover the assessed level of risk arising in relation to premature termination of the provision of service or assets provided by Harrison Catering Services Limited by reason of insolvency, winding up or liquidation and the level of bond set by the actuary is

£55,000. Harrison Catering Services Limited has sought to opt for a guarantor and this will be provided by Loxford School Trust.

12. There are risks to the letting authority (Loxford Schools Trust) if the bond levels are not reviewed in line with employee and legislative changes. This risk will be managed by putting in place a timescale for bond reviews and ensure this is included in the Admission Agreement. Bond renewals are to be carried out by the Fund's actuary.
13. The letting authority also faces risk if the admitted body is unable to meet any funding deficits at the end of a contract. This risk will be managed by putting in place regular reviews of Harrison Catering Services Limited's employer rates. Any deficit not met by Harrison Catering Services Limited at the end of the contract will be met by the letting authority.
14. The risk of non-payment of contributions, which would have a cash flow impact, is actively managed by the Havering pension team on a monthly basis with appropriate escalation for non-compliance. Cash flow performance is reported in the Pension Fund Annual Report.
15. Harrison Catering Services are an existing admitted body with the Havering Pension Fund, and other Local Government Pension Funds, so have experience of the implications of being a Scheme Employer.
16. The LPP have carried out a risk assessment for Harrison Catering Services Limited which shows (at 31<sup>st</sup> August 2020) as a Covenant Grade 2 (tending to strong) - Good trading, cash generation and asset position relative to the size of the scheme and deficits. Operates in a market with a reasonably positive outlook. The employer's financial outlook is generally positive but medium-term risk of the employer not being able to support the scheme and manage its risks. This will be reviewed on an annual basis.
17. There are no immediate financial implications to the Fund arising from the Fair Deal arrangements

**Legal implications and risks:**

18. Academies are scheme employers for the purposes of the local government pension scheme. Where they let contracts for the provision of services, their contractors are eligible to become admission bodies, subject to the completion of an admission body agreement and the provision of a bond or indemnity, if required, to cover the risks to the pension fund arising from premature termination of the provision of service by reason of insolvency, winding up or liquidation of the admission body.
19. Academies are public sector bodies required to have regard to the Government's policy guidance "Fair Deal for staff pensions: staff transfer from central Government" (published with immediate effect on the 4 October 2013) when

outsourcing services. Where staff are compulsorily transferred (TUPE) to an independent provider of public services (Harrison Catering Services Limited) those staff will generally have a right of continued access to the relevant public service pension arrangements (Havering LGPS) where they are classified as non-teaching staff

20. In the case of the Gaynes employee transferring to their new catering contractor, Fair Deal obligations can be achieved by means of an admission body agreement, between the administering authority (Havering) and the letting authority (Gaynes Academy) and the employing/admission body (Harrison Catering Services Limited) allowing the transferring employee to remain a member of the Local Government Pension Scheme. The Academy and the contractor have applied for admission on a closed basis and actuarial assessments have been undertaken on that basis in order to assess contributions and the bond value.
21. The admittance of Harrison Catering Services Limited into the Havering Pension Fund will ensure that the current employee enjoys their current pension protection when transferring to their new employer and negate against any complaints to the Pension Regulator and Pensions Ombudsman resulting from a failure to ensure Fair Deal pension protection for its employee on transfer.
22. The recommendations in this report are in keeping with the constitutional delegation.

**Human Resources implications and risks:**

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

Admitted body status will allow the former Gaynes Academy staff (who transferred to the new provider on 1 April 2020) continued membership eligibility of the LGPS.

**Equalities implications and risks:**

24. The proposed admission of Harrison Catering Services Limited into the London Borough of Havering Pension Fund will not only ensure that New Fair Deal guidance has been followed but will also enable the Gaynes Academy staff who will be compulsorily transferred to Harrison Catering Services Limited to continue to enjoy pension protection when transferred to their new employer

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.

<b>BACKGROUND PAPERS</b>
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None

## PENSIONS COMMITTEE

01 October 2020

**Subject Heading:**

**PENSION FUND PERFORMANCE  
MONITORING FOR THE QUARTER  
ENDED JUNE 2020**

**CLT Lead:**

**Jane West**

**Report Author and contact details:**

***Chrissie Sampson/Debbie Ford  
Pension Fund Accountant  
(Finance)/Pension Fund Manager  
(Finance)  
01708432569***

**Policy context:**

**[Debbie.ford@onesource.co.uk](mailto:Debbie.ford@onesource.co.uk)**  
Pension Fund Manager performance is regularly monitored to ensure investment objectives are met.

**Financial summary:**

This report comments upon the performance of the Fund for the period ended 30 June 2020

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

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

### SUMMARY

This report provides an overview of: Fund investment performance, Manager Monitoring and any relevant Local Government Pension Scheme (LGPS) updates for the quarter ending **30 June 2020**. Significant events that occur after production of this report will be addressed verbally at the meeting.

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

The manager attending the meeting will be from:

**J.P. Morgan Asset Management**

Hymans will discuss the managers' performance after which the manager will be invited to join the meeting and make their presentation.

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

## **RECOMMENDATIONS**

That the Committee:

- 1) Consider Hymans Market Background and Strategic Overview and Manager Performance Report (Appendix A)
- 2) Consider Hymans Performance Report and views (Appendix B **Exempt**)
- 3) Receive presentations from the Fund's infrastructure manager J.P. Morgan (Appendix C – **Exempt**)
- 4) Consider the quarterly reports sent electronically, provided by each investment manager.
- 5) Note the analysis of the cash balances

## **REPORT DETAIL**

1. Elements from Hymans report which are deemed non-confidential can now be found in **Appendix A**. Opinions on Fund manager performance will remain as exempt and shown in (**Appendix B**).
2. When appropriate more topical LPGS news that may affect the Pension Fund will now be included.
3. We welcome any feedback as we continue to develop the reporting format

#### **4. BACKGROUND**

- a. The Committee adopted an updated Investment Strategy Statement (ISS) in July 2020.

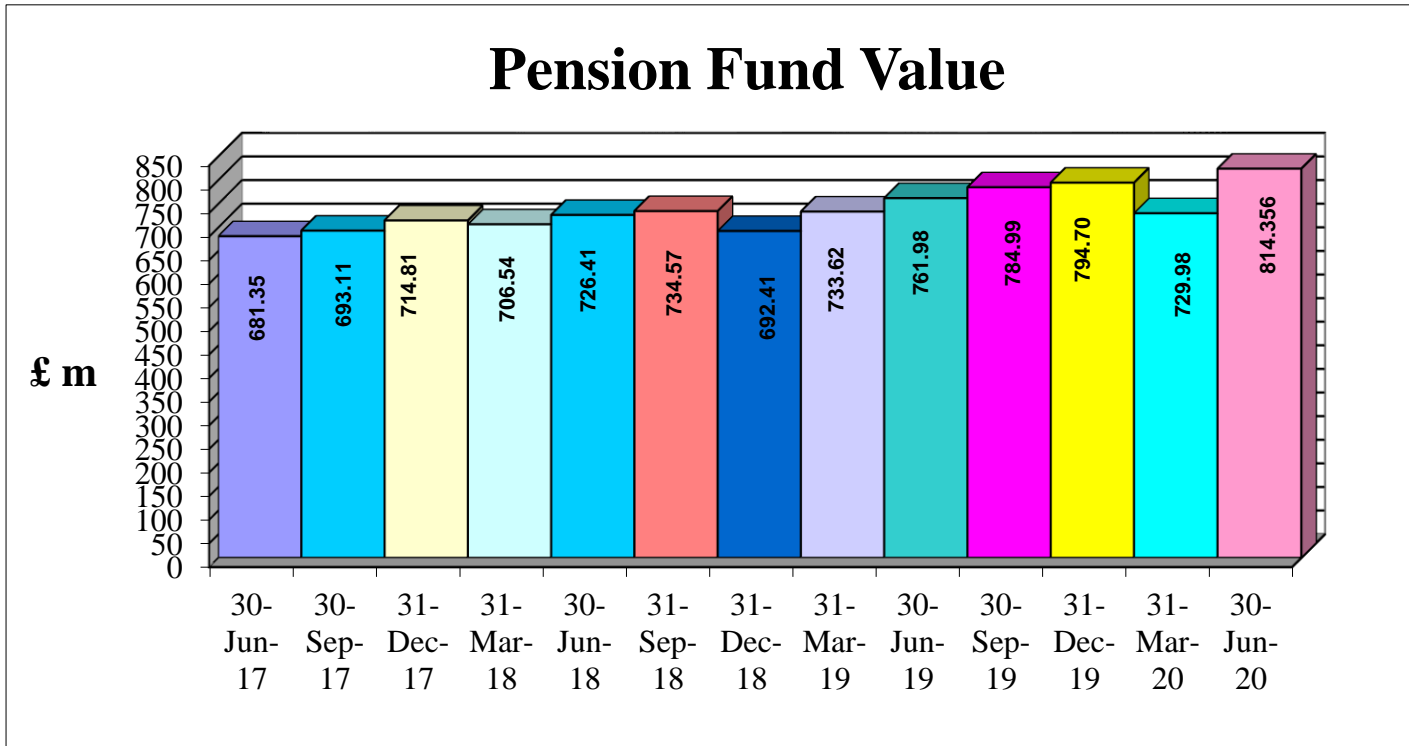


- b. The objective of the Fund's ISS is to deliver a stable long-term investment return in excess of the expected growth in the Fund's liabilities
- c. The Fund's assets are monitored quarterly to ensure that the long term objective of the ISS is being delivered.
- d. We measure returns against tactical and strategic benchmarks:
- e. **Tactical Benchmark** - Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.
- f. **Strategic Benchmark** - A strategic benchmark has been adopted for the overall Fund of Index Linked Gilts + 1.8% per annum. This is the expected return in excess of the fund's liabilities over the longer term and should lead to an overall improvement in the funding level. The strategic benchmark measures the extent to which the Fund is meeting its longer term objective of reducing the Fund's deficit.

## **5. PERFORMANCE**

- a. Based on information supplied by our performance measurers, Northern Trust, the total combined fund value at the close of business on 30 June 2020 was **£814.36m**. This compares with a Fund value of £729.98m at the 31 Mar 2020; an **increase of £84.38m**. Movement in the Fund value is attributable to a increase in assets of £86.67m and an decrease in cash of -£2.29m. Internally managed cash level stands at **£24.781m** of which an analysis follows in this report. It should be noted that in this quarter the Fund has recovered all the losses sustained following the pandemic declaration on 13 March 2020 that triggered a severe downturn on global markets and an unprecedented contraction in the major economies.

Chart 1 – Pension Fund Values



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

Table 1: Quarterly Performance

	Quarter to 31.06.20	12 Months to 31.06.20	3 Years to 31.06.20	5 years to 31.06.20
	%	%	%	%
Fund	11.35	5.76	5.50	7.13
Benchmark	8.09	4.50	5.22	6.37
*Difference in return	3.27	1.26	0.28	0.76

Source: Northern Trust Performance Report

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

- c. The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts + 1.8% Net of fees), The strategic benchmark return reflects the historic funding approach. Since the strategic benchmark return relates to the expected change in the value of the Fund's liabilities, it is mainly driven by the assumed level of investment return used by the Actuary.:

Table 2: Annual Performance

	<b>Quarter to 31.06.20</b>	<b>12 Months to 31.06.20</b>	<b>3 Years to 31.06.20</b>	<b>5 years to 31.06.20</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Fund	11.35	5.76	5.50	7.13
**Benchmark	10.70	12.42	8.77	10.25
*Difference in return	0.65	-6.67	-3.27	-3.12

*Source: Northern Trust Performance Report*

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

*\*\* Negative to be addressed as per note 5c above.*

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

## **6. CASH POSITION**

- a. An analysis of the internally managed cash balance of **£24.781m** follows:

Table 3: Cash Analysis

<b><u>CASH ANALYSIS</u></b>	<b><u>2018/19 31 Mar 19</u></b>	<b><u>2019/20 31 Mar 20</u></b>	<b><u>2020/21 30 Jun 20</u></b>
	£000's	£000's	£000's
<b>Balance B/F</b>	<b>-17,658</b>	<b>-13,698</b>	<b>-23,056</b>
Benefits Paid	37,954	38,880	9,807
Management costs	1,490	1,107	178
Net Transfer Values	1,543	-2,789	84
Employee/Employer Contributions	-44,804	-47,508	-12,455
Cash from/to Managers/Other Adj.	7925	1,154	723
Internal Interest	-148	-202	-62
<b>Movement in Year</b>	<b>3,960</b>	<b>-9,358</b>	<b>-1,725</b>
<b>Balance C/F</b>	<b>-13,698</b>	<b>-23,056</b>	<b>-24,781</b>

- b. Members agreed the updated cash management policy at its meeting on the 17 September 2019. The policy sets out that the target cash level should be £6m but not fall below the de-minimus amount of £3m or exceed £8m threshold. This policy includes

drawing down income from the bond and property manager when required.

- c. The cash management policy includes a discretion that allows the Statutory S151 officer to exceed the target level to meet unforeseeable payments such as the college transfer. Following the £15m withdrawal from internal cash to fund the college merger in July (explained below) the cash balance had fallen to £10.06m at 31 August 2020.

## **7. REPORTING ARRANGEMENTS**

- a. In line with the reporting cycle, the Committee will see one Fund Manager at each Committee meeting unless there are performance concerns for individual managers. Individual Fund Manager Reviews are attached in Hymans performance report at **Appendix A**.
- b. The full version of all the fund manager's quarterly report are distributed electronically prior to this meeting. Where applicable, quarterly voting information, from each Investment Manager, detailing the voting history of the Investment Managers is also included in the Manager's Quarterly Report.
- c. The Fund Manager attending this meeting is JP Morgan (the funds infrastructure manager) and their presentation can be found at Appendix C (Exempt).

## **8. FUND UPDATES:**

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

- a. The Fund has continued to fund capital draw down requests: c£1.7m for Churchill and c£0.86m for Stafford.
- b. Funding of the college bulk transfer to the London Pension Fund Authority (LPFA) – A final settlement figure of £41.41m has now been agreed and paid to the LPFA. The first payment of £30m (includes £15m from internal cash) was made on the 15 July 2020 and the balancing payment of £10.41m was paid on the 5 August 2020. Following on from the Cabinet decision to delegate authority to Chief Operating Officer/s151 Officer, a non-key decision report has been processed that agreed the route for disinvestment to fund the college transfer.

**8.2 London Collective Investment Vehicle (LCIV)** - LCIV is the mandatory asset pool for the Fund and updates will be covered here as follows:

**8.2.1 LCIV meetings**

- a. 16 July 2020 - LCIV Annual General Shareholder (AGM) meeting:
  - Regulatory Capital Statement - approved.
  - Governance Review - noted the Governance Progress Review and confirmed that the arrangements, introduced and in the progress of being implemented, address concerns about the need for increased levels of shareholder engagement, including the fund launch process, responsible investment and engagement about cost transparency.
  - Agreed revised Shareholder Committee Terms of Reference
  - Approved the Disputes and Deadlock Procedure. All shareholders will be requested to confirm that they undertake to be bound by decisions made by the procedure.
  - Remuneration & nomination – update on appointment and approved the reappointment of various member appointments.
- b. 20 August 2020 - Business update meetings (via WebEx). A range of topics covered included performance updates:
  - Chief Investment Officer – covered current Fund offering, Fund performance, update on funds for which enhanced monitoring is in place pipeline for new fund launches
  - Update from Director of Compliance and Risk and the Head of Responsible Investment - explained the timelines to meet regulatory requirements under the Shareholder Rights Directive II (SRDII) which requires greater transparency on shareholder engagement. Officers will enquire as to how this impacts our Fund and report back to the Committee, if necessary.
  - MHCLG 2020 Asset Pooling Update Return – Sets out progress on pooling and Funds intentions to pool over the next three years –deadline was 28 August 2020.

**8.2.2 Review of the LCIV Funding Model**

- a. London CIV and Ernst and Young (EY) presented a Funding Model workshop on the 7<sup>th</sup> August 2020, its purpose being to review the existing LCIV funding model and to consider different funding options.
- b. Client funds were asked to complete a questionnaire to seek their views on the current funding model and possible future models, 24 clients (including Haverling) responded.
- c. Feedback and key views from the questionnaire were:

- Client funds generally felt that the current funding model is clear and transparent, and are reasonably satisfied; there was an overall feeling of reasonable value for money.
  - Client funds were broadly split on whether a new funding model was required, but there was a strong preference for a fee that evolves over time.
  - There was a strong preference not to increase ad valorem fees or to have a standard ad valorem fee. Most clients would prefer a mix between fixed and ad valorem.
- d. Various funding options were proposed and discussed in the workshop and EY/LCIV to take on board views from questionnaire and workshop to further develop the options.
- e. EY/LCIV to further discuss the funding model with the Transparency Working group meeting in early September.
- f. A further report discussing funding options will be presented to the LCIV board in September.

#### **8.2.3 Responsible Investment & Stewardship**

- a. Jacqueline Jackson who has been appointed as Head of Responsible Investment in June 20 will review work undertaken to date before progressing.
- b. Focus will be looking at new regulations required due to the UK Stewardship Code, the Shareholder Rights Directive II and the UN PRI's expectations on Climate Related Financial Disclosures. LCIV are working on ensuring that they have all the necessary arrangements in place to deliver to these requirements.

#### **8.2.4 Sub Fund Updates**

- a. Global Equity Core Fund – Stage 6 – Fund Launch Stage. First investment in this fund expected Aug/Sept.
- b. Renewable Energy Fund – Stage 2 (mandate development stage) and progressing towards formal mandate sign-off from Executive Committee to proceed with anticipation of further discussions with the Seed Investor Group (SIG). SIG consists of 3 boroughs with 5 other boroughs expressing interest).
- c. Impact Fund (aka London Fund - a partnership arrangement with the London Pension Fund Authority (LPFA) and Local Pensions Partnership (LPP)) – Stage 2 (mandate development stage) Meeting with LPP to take place in August to determine next steps and client

demand. 2 client funds have expressed interest. The first closure due at the end of the year.

- d. Private Debt – Stage 2 (Mandate Development Stage) – Paper to be presented to Executive committee in for mandate approval. SIG to consist of 4 boroughs and 3 boroughs expressing interest.

### **8.2.5 LCIV Key Staffing updates –**

- a. All staffing changes reported in the Q1-20 report are now in place. No new changes for this quarter.

## **8.3 LGPS GENERAL UPDATES:**

### **8.3.1 Public sector exit payments**

The government published a consultation on 10 April 2019 seeking views on regulations implementing a £95,000 cap on exit payments in the public sector. The consultation closed on 3 July 2019. The Government is continuing with the introduction of the cap across the public sector, which will have implications for LGPS employers. Based on the responses to the consultation, the government will revise the regulations and guidance, the final version of these will be published later this year. Draft regulations were published on the 8<sup>th</sup> September with a timeline for implementation of January 2020

### **8.3.2 LGPS Amendments to Statutory Underpin**

LGPS Amendments to Statutory underpin consultation issued July 2020 with a deadline of 8 October 2020. This sets out how MHCLG proposes to remedy the McCloud age discrimination in the LGPS. A report that includes details of this consultation and the Funds response has been included in this agenda.

### **8.3.3 Cost Cap**

An announcement was made that the 2016 Cost Cap process will be ‘unpaused’ and the cost of resolving McCloud will be included in the assessment of scheme costs.

### **8.3.4 Climate Change - PCRIG consultation response**

The Pensions Climate Risk Industry Group (PCRIG) published draft guidance on how pension funds can use the Task Force on Climate – related Financial Disclosures (TCFD) framework to approach climate risk management. The guidance is directly relevant to LGPS funds,

setting out a number of steps that can be taken which include setting beliefs, scenario modelling, engaging with asset managers and carbon foot printing. Consultation is now closed, with final guidance expected in a few months. Officers will discuss with the Funds Investment advisors on any regulatory requirement as this progresses.

## **IMPLICATIONS AND RISKS**

### **Financial implications and risks:**

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

### **Legal implications and risks:**

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

The Committee has been constituted by the Council to perform the role of administering authority to manage the Havering LGPS Fund and as such has legal authority to consider and note the Report and presentations.

### **Human Resources implications and risks:**

There are no immediate HR implications.

### **Equalities implications and risks:**

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

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



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

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

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

<b>BACKGROUND PAPERS</b>
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None

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# London Borough of Havering Pension Fund

Q2 2020 Investment Monitoring Report

Simon Jones - Partner

Mark Tighe - Analyst

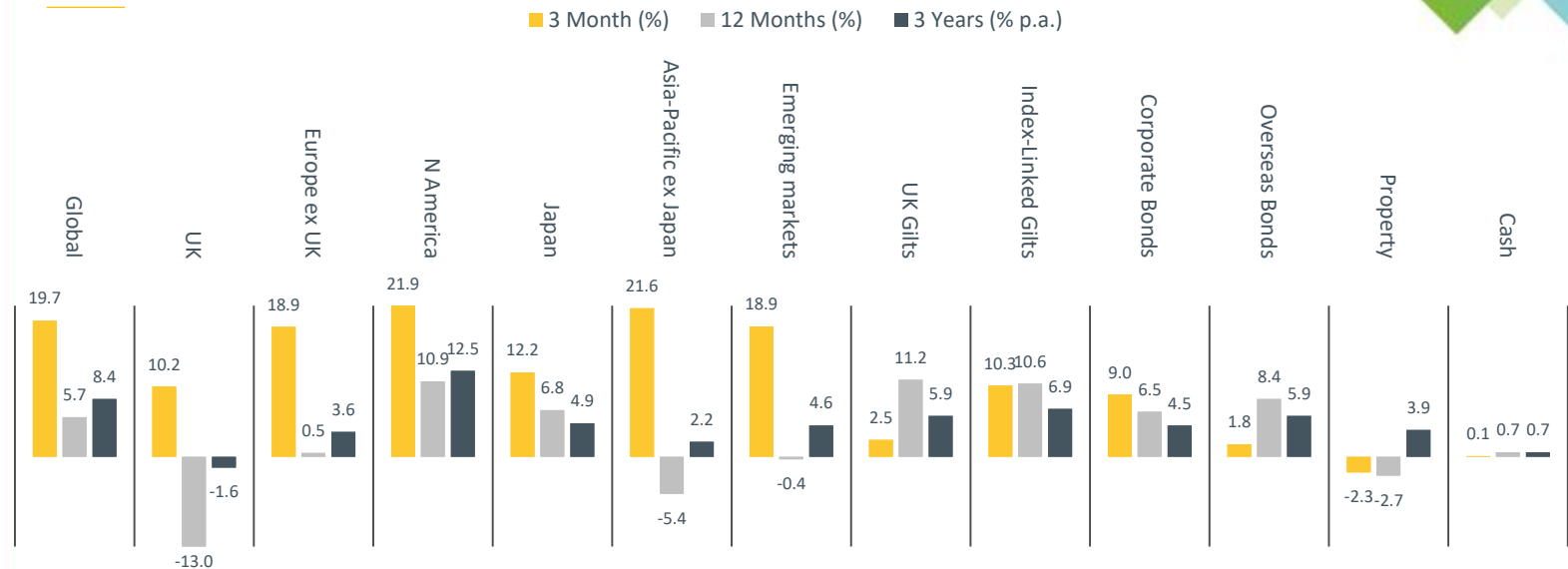
## Market Background

Q1 figures confirmed GDP had fallen across the world since the end of 2019. As many of the developed economies went into lockdown during March, falls in second-quarter GDP are likely to be even greater. Purchasing Managers' Indices for both services and manufacturing in the major western economies plunged to record lows in April but, after rebounding in May, saw record rises in June. Though remaining at a level consistent with further economic contraction since May, most commentators suggested the sharp rise from May's numbers provided a better guide to the likely growth in output over the month.

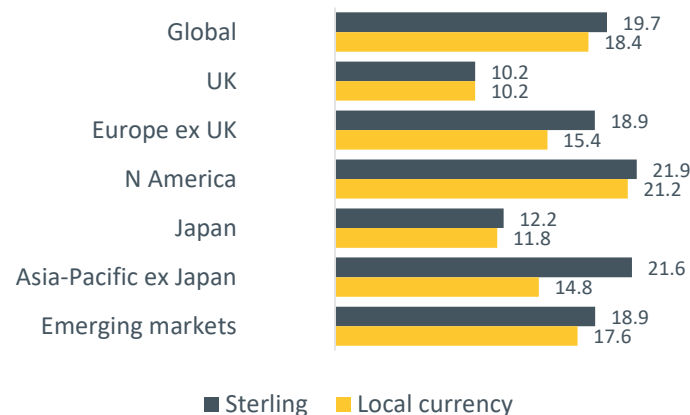
Forecasts for global GDP growth in 2020 as a whole have fallen significantly since the end of the first quarter. However, there has been some moderation in the pace of downgrades to global 2020 GDP data, with some country-level exceptions. UK CPI inflation fell from 1.5% in March to 0.5% in May. Lower energy prices made a big contribution to the fall but core inflation (excluding food and energy) has also fallen from 1.6% to 1.2%, as low as it has been since 2016.

In April, the Fed significantly expanded the corporate credit purchase programmes it had announced in March to include, for the first time, speculative-grade debt. In June, the European Central Bank announced a further €600bn of QE and the Bank of England raised its QE programme from £645bn to £745bn. Sterling consolidated the rebound from its late-March depths in April, but subsequently weakened. In trade-weighted terms, it has fallen more than 2% since the end of March.

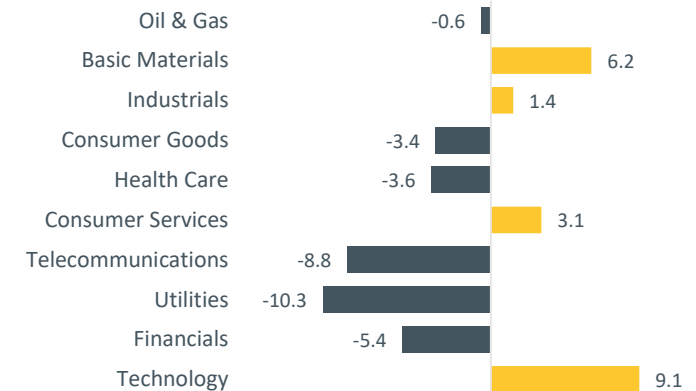
### Historic returns for world markets <sup>[1]</sup>



### Regional equity returns <sup>[2]</sup>



### Global equity sector returns (%) <sup>[3]</sup>



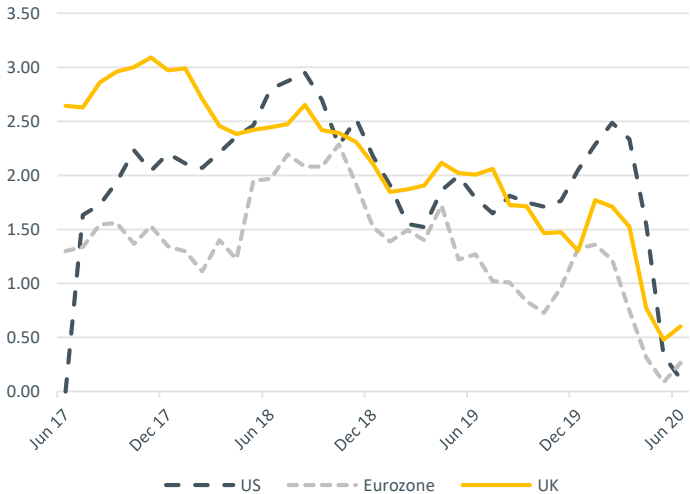
<sup>[1]</sup> All returns are in Sterling terms. Indices shown (from left to right) are as follows: FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property Index; UK Interbank 7 Day. <sup>[2]</sup> FTSE All World Indices <sup>[3]</sup> Relative to FTSE All World Indices.

Sovereign bond yields changed little in the US and Germany, but UK 10-year gilts have fallen a further 0.2%. Index-linked gilt yields have fallen further than conventional gilt yields, resulting in a slight rise in implied inflation. Reflecting the expansion of central bank support, global investment-grade spreads fell from 2.8% p.a. to 1.6% p.a. Global speculative-grade credit spreads fell from 9.2% p.a. to 6.4% p.a., further supported by the specific details of the Fed's purchases and a rise in oil prices from \$22 to \$41 per barrel. Energy companies comprise c.10% of the US high yield market.

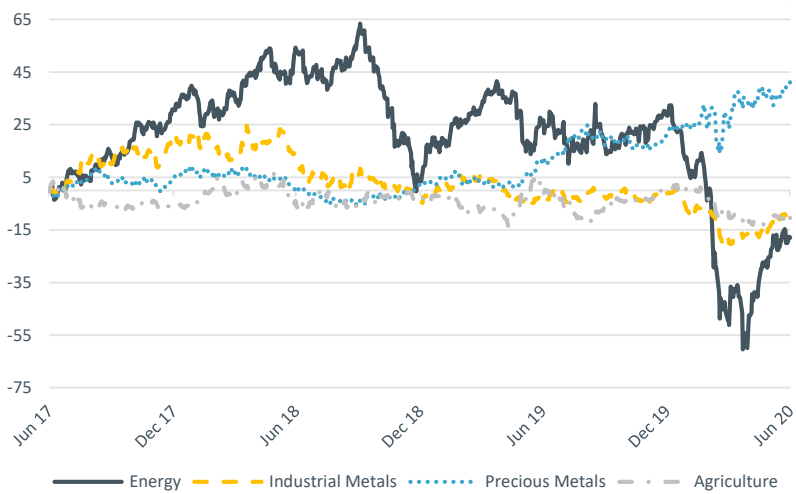
Global equity indices rose 18.4% in local currency terms. Sector composition helps to explain why the US (heavy in technology) leads the regional ranking tables for both this quarter and the year to date and why the UK (hardly any technology and heavy in financials) brings up the rear over both periods. After a poor first quarter, cyclical sectors have fared better in the second: basic materials, industrials and consumer services have outperformed the market; oil & gas has been broadly in line. But financials have fallen further behind. Technology is again at the head of the global performance rankings and, after a relatively resilient first quarter, defensive sectors, such as utilities, telecoms and healthcare, have lagged.

UK commercial property values continue to fall, although there is little or no transaction activity to guide valuations. As measured by the MSCI UK Monthly Property Index, capital values in May were almost 6% below end-2019 levels. Initial evidence suggests commercial tenants withheld rents at the June quarter collection day in England & Wales to a greater extent than in March.

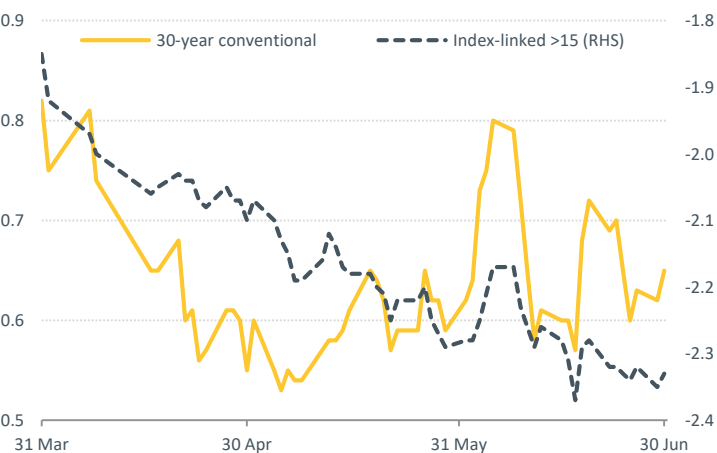
Annual CPI Inflation (% p.a.)



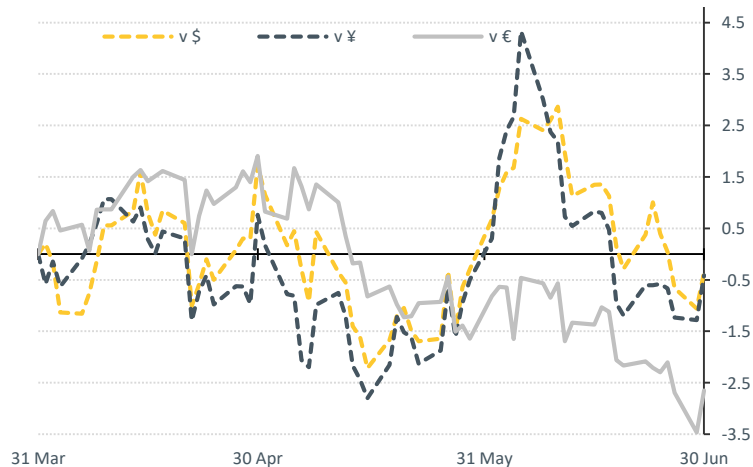
Commodity Prices (% change)



Gilt yields chart (% p.a.)

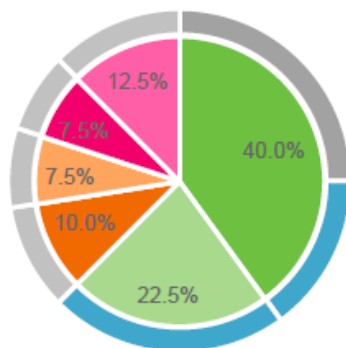


Sterling trend chart (% change)

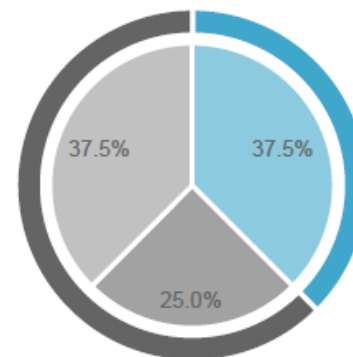


Source: Reuters

## Asset Allocation



- Equity
- Multi-Asset
- Property
- Infrastructure
- Private Debt
- Other bonds



- LCIV
- Life funds
- Other retained assets

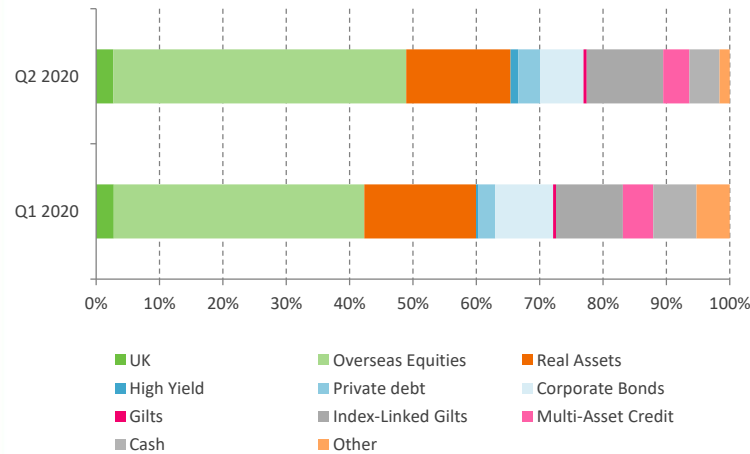
## Long Term Strategic Target

Asset class	Long term target	LCIV		Life funds		Other retained assets	
		Manager(s)	%	Manager(s)	%	Manager(s)	%
Equity	40	Baillie Gifford	15	LGIM	25		
Multi-Asset	22.5	Baillie Gifford, Ruffer	22.5				
Property	10					UBS, CBRE	10
Infrastructure	7.5					JP Morgan, Stafford	7.5
Private Debt	7.5					Permira, Churchill	7.5
Other bonds	12.5					RLAM	12.5
<b>Total</b>	<b>100</b>	<b>-</b>	<b>37.5</b>	<b>-</b>	<b>25</b>	<b>-</b>	<b>37.5</b>

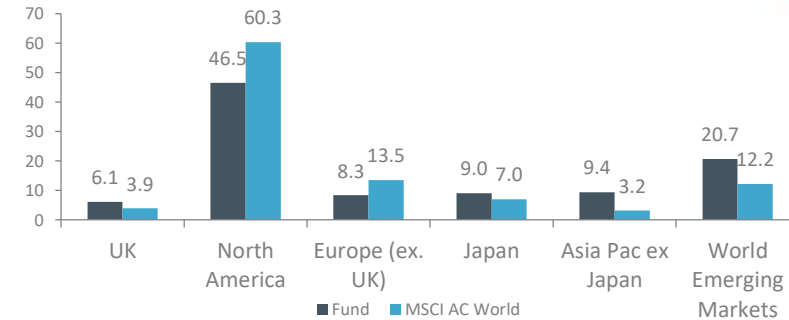
## Asset Allocation

Manager	Implementation	Valuation (£m)		Actual Proportion	Benchmark	Relative
		Q1 2020	Q2 2020			
Equity		260.2	320.8	39.4%	40.0%	-0.6%
LGIM Global Equity	LCIV aligned	51.3	61.4	7.5%	7.5%	0.0%
LGIM Fundamental Equity	LCIV aligned	44.6	51.8	6.4%	7.5%	-1.1%
LGIM Emerging Markets	LCIV aligned	27.9	33.1	4.1%	5.0%	-0.9%
Baillie Gifford Global Equity (CIV)	LCIV	136.3	174.4	21.4%	15.0%	6.4%
Other Equity	-	0.0	0.0	0.0%	5.0%	-5.0%
Multi-Asset		182.8	196.1	24.1%	22.5%	-3.4%
Ruffer Absolute Return (CIV)	LCIV	97.7	104.0	12.8%	12.5%	0.3%
Baillie Gifford DGF (CIV)	LCIV	80.0	86.7	10.6%	10.0%	0.6%
GMO Global Real Return	Retained	5.1	5.5	0.7%	0.0%	0.7%
Real-Assets		114.9	112.1	13.8%	17.5%	-3.7%
UBS Property	Retained	41.5	40.5	5.0%	6.0%	-1.0%
CBRE	Retained	29.0	28.6	3.5%	4.0%	-0.5%
JP Morgan	Retained	27.0	25.8	3.2%	4.0%	-0.8%
Stafford Capital Global Infrastructure	Retained	17.4	17.3	2.1%	3.5%	-1.4%
Bonds and Cash		172.1	185.3	22.8%	20.0%	2.8%
RLAM MAC and ILGs	Retained	70.6	78.4	9.6%	8.3%	1.3%
RLAM Corporate Bonds	Retained	54.1	53.3	6.6%	4.2%	2.4%
Churchill	Retained	14.0	15.6	1.9%	4.5%	-2.6%
Permira	Retained	5.6	11.6	1.4%	3.0%	-1.6%
Cash at Bank	Retained	28.5	26.2	3.2%	0.0%	3.2%
Russell Currency Overlay	Retained	-0.7	0.1	0.0%	0.0%	0.0%
Total Scheme		730.0	814.4	100.0%	100.0%	

## Asset class exposures



## Regional Equity Allocation





## Manager performance

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
<b>Growth</b>												
LGIM Global Equity	19.7	19.8	0.0	5.7	5.7	0.0	8.4	8.3	0.0	11.8	11.8	0.0
LGIM Fundamental Equity	16.0	16.0	-0.1	-6.9	-7.0	0.2	2.2	2.2	0.0	8.5	8.6	-0.1
LGIM Emerging Markets	18.8	18.9	-0.1	-0.6	-0.5	-0.2	-	-	-	5.0	5.2	-0.1
LCIV Global Alpha Growth (Baillie Gifford)	27.9	19.6	7.0	17.3	5.1	11.6	14.1	8.3	5.4	16.0	12.3	3.3
LCIV Absolute Return (Ruffer)	6.4	0.1	6.3	8.0	0.7	7.3	2.7	0.8	2.0	4.5	0.8	3.7
LCIV DGF (Baillie Gifford)	8.4	1.0	7.3	-2.1	4.1	-5.9	0.7	4.1	-3.3	3.3	4.1	-0.8
GMO Global Real Return	7.2	1.2	5.9	-9.8	5.4	-14.4	-2.8	5.9	-8.1	-0.8	5.9	-6.3
<b>Income</b>												
UBS Property	-2.0	-2.0	0.0	-1.2	-2.6	1.5	4.5	3.4	1.1	5.8	6.8	-0.9
CBRE	-1.1	1.2	-2.3	6.4	5.7	-0.7	-	-	-	6.0	5.6	0.4
JP Morgan	1.6	1.2	0.4	5.8	5.7	0.1	-	-	-	6.4	5.6	0.8
Stafford Capital Global Infrastructure	-0.7	1.2	-1.9	6.3	5.7	0.6	-	-	-	6.7	6.1	0.6
<b>Protection</b>												
RLAM MAC and ILGs	11.0	10.9	0.1	9.8	9.4	0.3	7.1	6.6	0.5	7.8	7.3	0.5
RLAM Corporate Bonds	9.9	11.5	-1.5	-	-	-	-	-	-	0.8	0.9	-0.1
Churchill	-1.5	1.3	-2.7	11.3	5.0	6.3	-	-	-	5.6	5.0	0.6
Permira	-4.3	1.3	-5.5	-	-	-	-	-	-	0.8	3.8	-2.8
<b>Total</b>	12.0	7.8	3.9	7.0	3.7	3.2	6.0	4.3	1.7	-	-	-

Source: Northern Trust, investment managers. Please note that benchmark performance for Baillie Gifford DGF, Ruffer Absolute Return and GMO Real Return funds is inclusive of outperformance targets. In addition, longer term performance for Baillie Gifford Global Equity, Baillie Gifford DGF and Ruffer Absolute Return funds is inclusive of performance prior to their transfer in to the London CIV. LGIM Global and Fundamental Equity mandates were managed by SSGA prior to November 2017 and we have retained the performance history for these allocations. Performance figures for CBRE, Stafford and JP Morgan has been taken from the managers rather than Northern Trust. The Fund performance figure includes the effect of the currency hedging mandate managed by Russell.

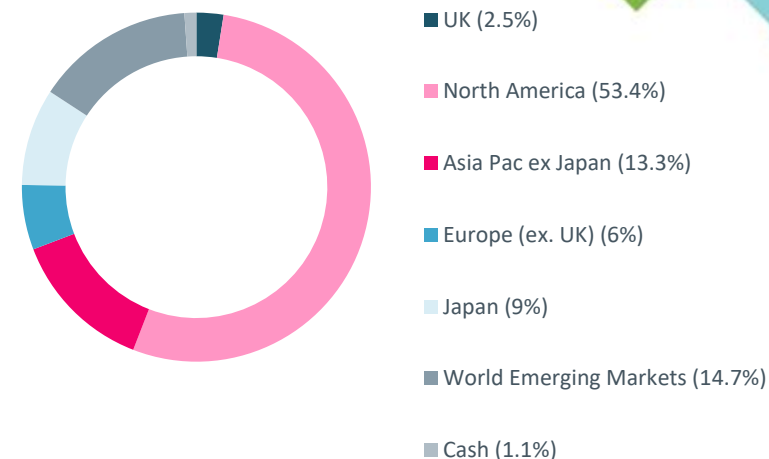
## LCIV Funds

- The Fund accesses global equity and multi-asset sub-funds through LCIV.
- LCIV are responsible for the ongoing monitoring and governance of the underlying investment managers.
- The Global Alpha Growth sub-fund is managed by Baillie Gifford.
- The objective of the sub-fund is to exceed the rate of return of the MSCI All Country World Index by 2-3% per annum on a gross of fees basis over rolling five-year periods.

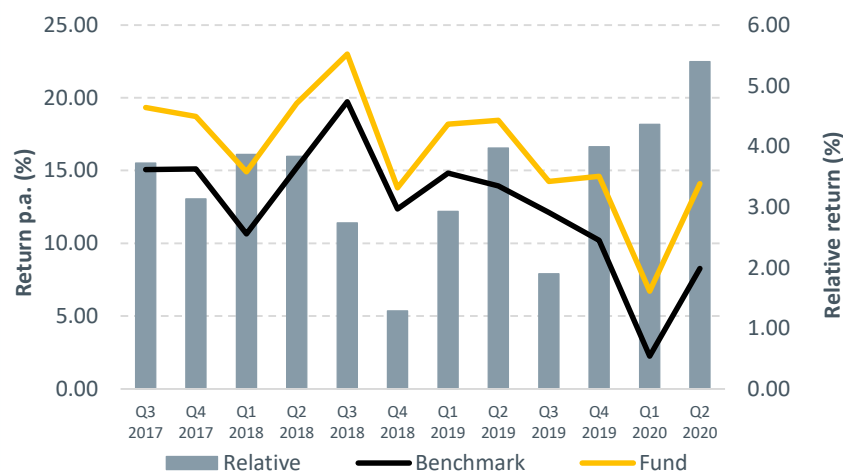
## LCIV Global Alpha Growth

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Global Alpha Growth	27.9	17.3	14.1	16.0
Benchmark	19.6	5.1	8.3	12.3
Relative	7.0	11.6	5.4	3.3

## Regional Allocation



## Rolling 3 year return



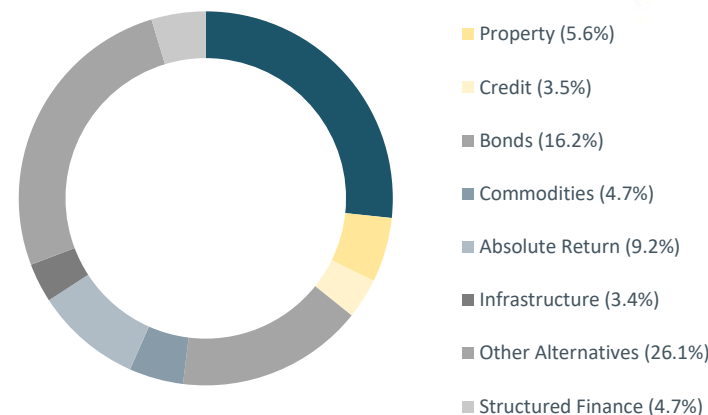
## LCIV Diversified Growth Fund

- The sub-fund is managed by Baillie Gifford through their Diversified Growth strategy.
- The sub-fund's objective is to achieve long term capital growth at lower risk than equity markets.
- Benchmark is UK base rate + 3.5% (net).

## LCIV Diversified Growth Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Diversified Growth	8.4	-2.1	0.7	3.3
Benchmark	1.0	4.1	4.1	4.1
Relative	7.3	-5.9	-3.3	-0.8

## Asset Allocation



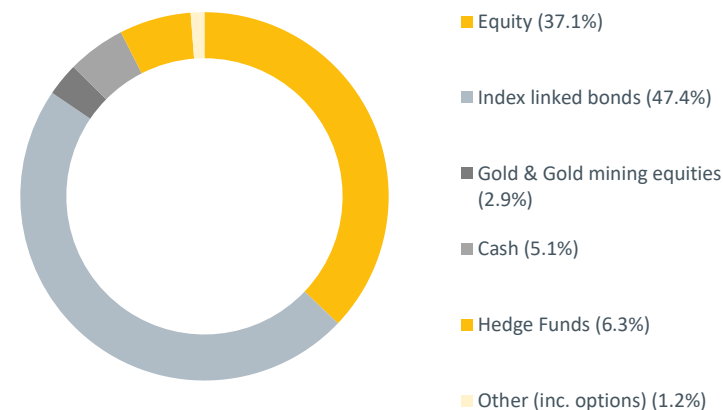
## LCIV Absolute Return Fund

- The sub-fund is managed by Ruffer.
- The sub-fund's objective is to achieve low volatility and positive returns in all market conditions.
- Benchmark is 3 month LIBOR

## LCIV Absolute Return Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Absolute Return	6.4	8.0	2.7	4.5
Benchmark	0.1	0.7	0.8	0.8
Relative	6.3	7.3	2.0	3.7

## Asset Allocation



## LGIM Equity Funds

- LGIM were appointed from November 2017 to manage the Fund's index tracking global equity portfolio, with the mandate being split equally between investment in a fund tracking a market cap weighted index and a fund tracking a fundamentally weighted index (RAFI).
- The objective of this mandate is to match the performance of the respective benchmark indices.
- Performance information reflects performance from LGIM from November 2017, and SSGA prior to this date.

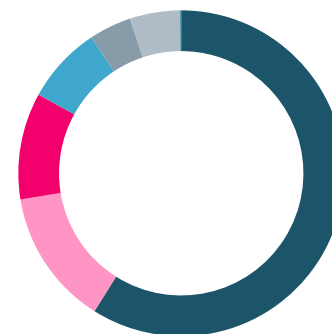
## All World Equity Index

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LGIM Global Equity	19.7	5.7	8.4	11.8
Benchmark	19.8	5.7	8.3	11.8
Relative	0.0	0.0	0.0	0.0

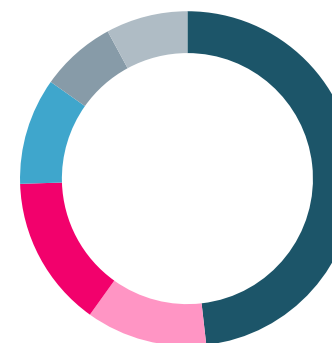
## FTSE RAFI All World 3000 Equity Index

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LGIM Fundamental Equity	16.0	-6.9	2.2	8.5
Benchmark	16.0	-7.0	2.2	8.6
Relative	-0.1	0.2	0.0	-0.1

## Regional Allocation



## Regional Allocation



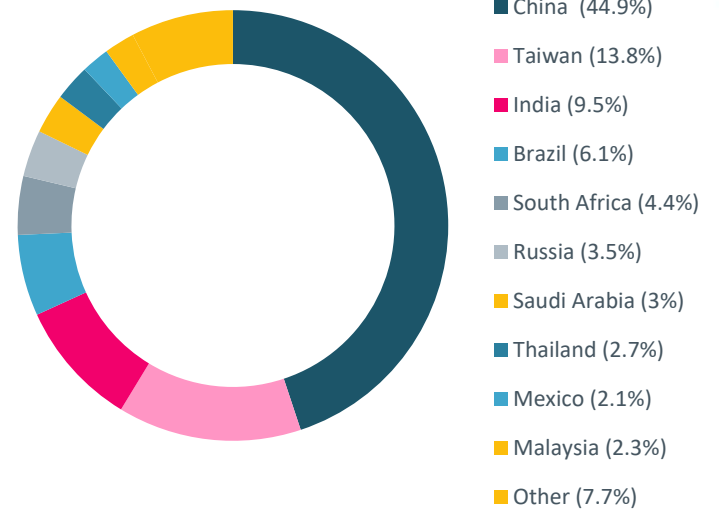
## LGIM Emerging Markets

- The objective of this mandate is to match the performance of the FTSE Emerging indices.

### World Emerging Markets Equity Index

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
LGIM Emerging Markets	18.8	-0.6	5.0
Benchmark	18.9	-0.5	5.2
Relative	-0.1	-0.2	-0.1

### Regional Allocation



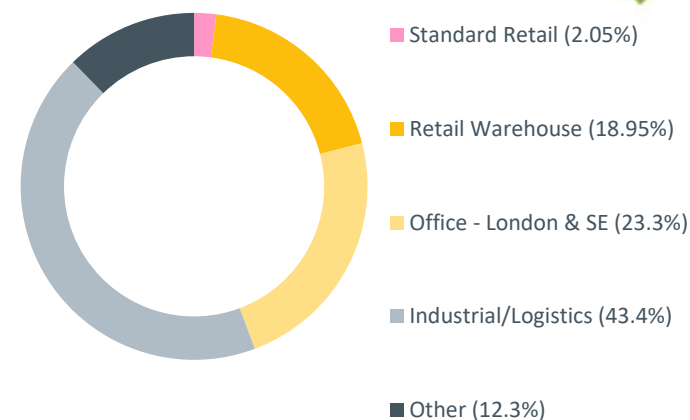
## UBS Triton Property Fund

- The objective of the fund is to deliver returns broadly in line with a peer group of other UK property funds.
- The fund invests directly in UK properties with returns generated through the collection of rental income and growth in both rental levels and capital values.
- As a result of the coronavirus pandemic, all major UK property funds, including UBS Triton, suspended trading as a result of significant uncertainty in pricing. As such, the full implications of the pandemic on pricing are not currently known, and performance information should therefore be regarded as illustrative at this time.
- Whilst significant uncertainty remains, we expect retail and office sectors will be most impacted by the lockdown. The UBS mandate offers a degree of protection given underweight allocations to each of these sectors.

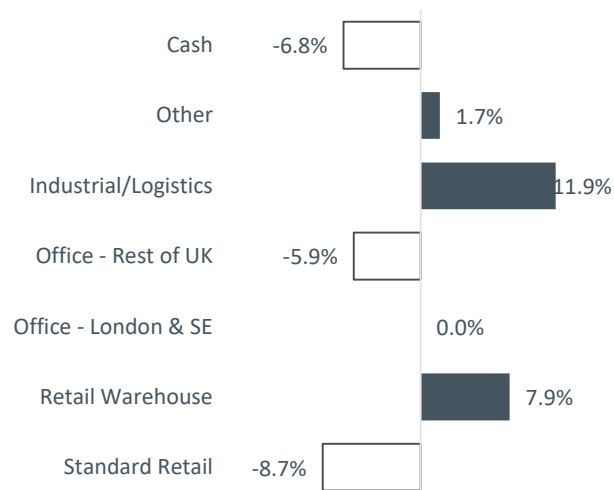
## UBS Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
UBS Property	-2.0	-1.2	4.5	5.8
Benchmark	-2.0	-2.6	3.4	6.8
Relative	0.0	1.5	1.1	-0.9

## Sector Allocation



## Sector Allocation Relative to Benchmark



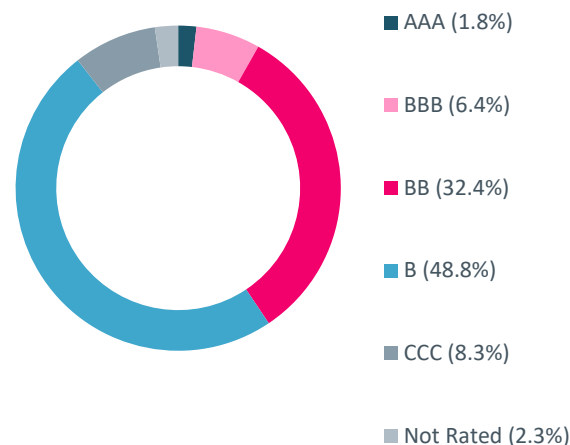
## RLAM – Bond mandates

- Royal London Asset Management (RLAM) was appointed in February 2005 to manage the Fund's bond mandate.
- During January 2020, RLAM implemented changes to the mandate structure, including the introduction of multi-asset credit.
- RLAM now manage two separate portfolios: the existing portfolio consisting of index linked gilts and with the addition of MAC; and a separate corporate bond portfolio which is being sold down to fund the strategic changes.
- The chart below right compares the credit rating breakdown of the multi-asset credit and corporate bond portfolios at the end of the quarter.

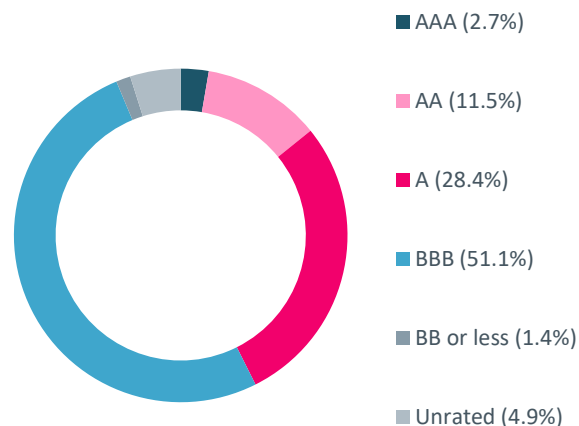
## RLAM Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
RLAM MAC and ILGs	11.0	9.8	7.1	7.8
Benchmark	10.9	9.4	6.6	7.2
Relative	-0.1	0.3	0.5	0.6
RLAM Corporate Bonds	9.9	n/a	n/a	0.8
Benchmark	11.5	n/a	n/a	0.9
Relative	-1.5	n/a	n/a	-0.1

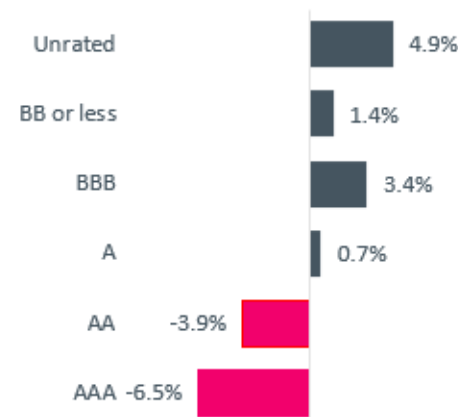
## Credit Allocation (MAC)



## Credit allocation (Corporate Bonds)



## Credit Allocation relative to benchmark (Corporate Bonds)



## Russell Currency Hedging

- Russell Investments have been appointed to manage the Fund's currency overlay mandate.
- The current policy is to hedge non-sterling exposures in the Fund's private markets mandates. Currency exposure in equity mandates is retained.
- At present, 100% of the exposure to USD, EUR and AUD from the private market investments is hedged within any residual currency exposure retained on a de-minimis basis.
- The charts illustrate the breakdown of hedged currency exposures in each mandate (ignoring unhedged exposures).
- Since implementation, sterling has weakened against other currencies.

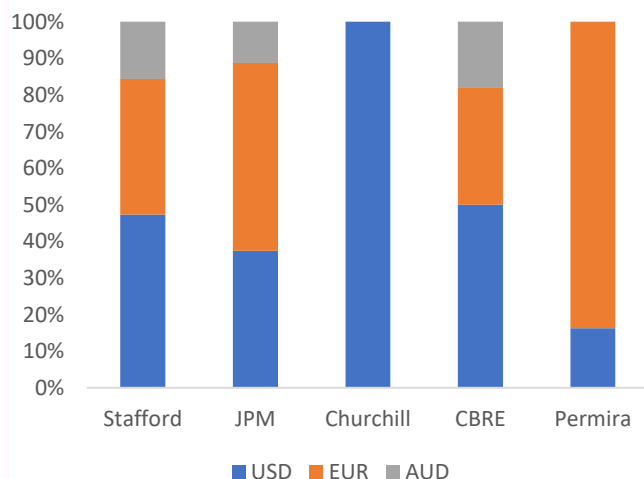
## Q2 performance

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford	-0.7	-1.2	-1.9	1.2	-3.1
JPM	1.6	-2.3	-0.7	1.2	-1.9
Churchill	-1.5	-1.4	-2.9	1.3	-4.1
CBRE	-1.1	-1.9	-3.0	1.2	-4.2
Permira	-4.3	-1.0	-5.3	1.3	-6.5

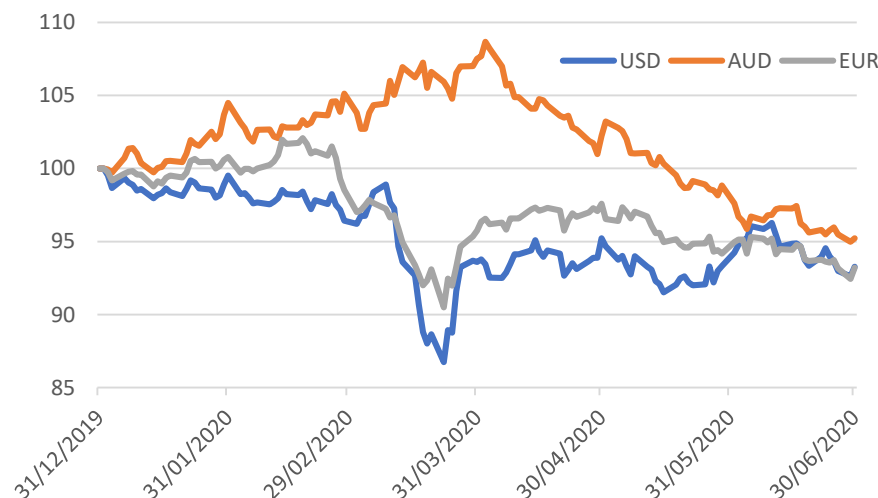
## Performance since mandate inception\*

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford	6.7	-3.9	2.8	2.6	0.2
JPM	6.4	-5.0	1.4	2.6	-1.1
Churchill	5.6	-6.6	-1.0	2.5	-3.4
CBRE	6.0	-4.7	1.3	2.6	-1.2
Permira	0.8	-1.9	-1.1	2.5	-3.6

## Hedged currency exposure as at quarter end



## Sterling performance vs foreign currencies (rebased to 100 at 31 December 2019)



Source: Northern Trust, Investment managers

\*Performance shown since 31 December 2019 which was the first month end after inception



- Since March 2018, the Fund has made commitments to five private markets funds as outlined below. The table provides a summary of the commitments and drawdowns to 30 June 2020.
- The allocations to JP Morgan and CBRE are fully drawn.
- There are outstanding commitments of approximately £51m to the remaining funds which will be primarily funded from the RLAM mandate.

Mandate	Infrastructure		Global Property	Private Debt	
Vehicle	Stafford Infrastructure Secondaries Fund II	JP Morgan Infrastructure Investments Fund	CBRE Global Investment Partners Global Alpha Fund	Churchill Middle Market Senior Loan Fund II	Permira Credit Solutions IV Senior Fund
Commitment Date	25 April 2018	31 July 2018	30 September 2018	December 2018	December 2018
Fund currency	EUR	USD	USD	USD	EUR
Gross commitment	c. £26m (EUR 28.5m)	c. £26.1m (USD 34.0m)	c. £26.1m (USD 34m)	c. £23.8 m (USD 31m)	c. £36 m
Net capital called during quarter (Payments less returned capital)	c. £0.9m (EUR c.1m)	-	-	c. £1.7m (USD 2.2m)	N/A
Net capital drawn to date (Payments less returned capital)	EUR 20.5m (c. £18.4m)	c. £23.6m (USD 31.4m)	c. £25.6m (USD 34.0m)*	c. £14.3.m (USD 19.4m)	c. £5.6m (EUR 6.2m)
Other distributions to date (Includes income and other gains)	EUR 3.4m (c. £3.0m)	-	-	c. £0.5.m (USD 0.7m)	N/A
NAV at quarter end	EUR 22.9m (c. £17.3m)	USD 34.2m (c. £25.8m)	USD 37.9m (c. £28.6m)*	USD 20.7m (c. £15.6m)	£11.6m
Net IRR since inception (in fund currency)	8.3% p.a. (vs. 8-9% target)*	5.6%	10.3%*	N/A	N/A
Net cash yield since inception (in fund currency)	4.3% p.a. (vs. 5% target)*	10.8%	4.8%*	N/A	N/A
Number of holdings	21 funds, 285 underlying assets*	17 companies, 541 assets	50 investments, 2,484 properties*	N/A	N/A

\*as at 31/03/2020 (latest available)

Source: Investment Managers

## Capital Markets Outlook

Page 38

Asset class	Overall view	Market summary
Equities	Cautious	<ul style="list-style-type: none"> <li>While near-term data has started to improve, much uncertainty remains over the longer-term recovery and, ultimately, the extent of the impact on corporate earnings.</li> <li>Recent market moves have reduced the apparent cheapness of global equity markets and current valuations may not adequately reflect the downside risks to the outlook.</li> <li>There remains a meaningful disparity by region – from a valuation perspective the US looks expensive, with the UK and Emerging Markets look cheaper relative to historic levels.</li> </ul>
Sterling non-government bonds	Neutral Offers value relative to sub IG excl. rates	<ul style="list-style-type: none"> <li>Global investment grade credit spreads have rebounded strongly and are nearing long-term median levels.</li> <li>Despite similar underlying assessments for both investment-grade and speculative-grade markets, we have a slightly more positive overall view for investment-grade, given the less sensitive nature of this market to the fundamental backdrop.</li> <li>The structural protection inherent in ABS and high stress resilience offers some additional protection relative to unsecured corporate markets.</li> </ul>
Sub-investment grade debt	Neutral to Cautious	<ul style="list-style-type: none"> <li>Around two-thirds of the spread widening of the first quarter has been recouped (by end July) since the end of March, though spreads remain above long-term median levels.</li> <li>Default and downgrade expectations have improved; however the outlook still remains uncertain.</li> </ul>
UK property	Rating suspended	<ul style="list-style-type: none"> <li>UK commercial property capital values and rental growth are falling across the market as the impact of the pandemic is increasingly reflected in the data.</li> <li>A lack of transactions means the material uncertainty over the accuracy of valuations persists and is likely the data will further deteriorate over the coming months.</li> </ul>
Infrastructure	Rating suspended	<ul style="list-style-type: none"> <li>We have seen some significant write-downs of some GDP-sensitive assets, but there is limited evidence of how it has affected broad valuations.</li> <li>Dry powder remains at an all-time high.</li> </ul>
Conventional gilts	Neutral to Cautious	<ul style="list-style-type: none"> <li>Gilt yields remain near record lows amid ultra-accommodative monetary policy.</li> <li>Downgrades to forecasts for UK growth and inflation improve fundamental support for gilt markets.</li> <li>Yields are expected to remain subdued for some time as major central banks expand QE programs to provide liquidity to the global financial system, pushing the normalisation of interest rates beyond the horizon of our medium-term views.</li> </ul>
Index-linked gilts	Neutral to Cautious	<ul style="list-style-type: none"> <li>Implied inflation is no longer cheap versus forecast and target inflation.</li> <li>The ongoing consultation on the use of RPI as an inflation measure remains a risk for real yields.</li> </ul>
Cash strategies	Neutral	<ul style="list-style-type: none"> <li>While interest rates may be as close to zero as they can get, when focused on risk adjusted returns, this feels like a sensible time to hold more cash than usual, that can be deployed into buying opportunities.</li> </ul>

The table summarises our broad views on the outlook for markets. The ratings used are Positive, Attractive, Neutral, Cautious and Negative. The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, they are not intended as tactical calls. The ratings reflect our expectations of absolute returns and assume no constraints on investment discretion. In practice, they need to be interpreted in the context of the strategic framework within which individual schemes are managed.

## LCIV Overview

	Comments	Action required
<b>Governance</b>	Following the appointment of a new Head of Responsible Investment, LCIV's Responsible Investment policy remains under review. LCIV are also exploring the appointment of a voting and engagement services provider.	<b>For noting</b>
<b>People</b>	<p>LCIV has appointed Jason Fletcher as their permanent CIO, who started in July 2020. Jason took over from Kevin Corrigan who has been serving as LCIV's CIO on an interim basis. Jason was formerly CIO at LGPS Central and West Midlands Pension Fund, and has more than 25 years of experience in the financial sector. Jason brings significant pooling and LGPS experience.</p> <p>LCIV has also appointed their new Head of Responsible Investment. Jacqueline Jackson, who is a specialist in sustainability and stewardship, has experience working with government bodies and regulators, including previous engagements with London Authorities and pension funds. Jacqueline joined LCIV in July.</p> <p>Finally, LCIV have recently confirmed that Cameron McMullen has taken over the role of Client Relations Director, replacing Kevin Cullen who is due to retire. Cameron started the role in April, and joins from MJ Hudson Allenbridge.</p>	<b>For noting</b>
<b>Performance</b>	As previously noted performance of the LCIV Diversified Growth Fund (Baillie Gifford) disappointed during Q1 but has recovered some of its underperformance over Q2. This should continue to be monitored in conjunction with LCIV.	<b>Action (&lt;3m)</b>
<b>Operations</b>	LCIV have established processes to work from home in light of Covid-19 crisis and have put in place virtual mechanisms for communicating internally and externally. LCIV have established monthly business update webinars for funds and stakeholders from April 2020 and are also continuing to hold meet the manager and seed investor group meetings.	<b>For noting</b>
<b>Sub-fund offerings</b>	<p>LCIV has Seed Investor Groups looking at Renewable Energy Infrastructure and the London Fund.</p> <p>LCIV launched the Inflation Plus Fund on 11 June 2020 – a property fund with the ability to also invest across infrastructure debt and real estate debt if required to seek the best relative value.</p>	<b>For noting</b>
<b>Other developments</b>	None to report at this stage.	<b>For noting</b>

## Risk Warning

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

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

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## Geometric v Arithmetic Performance

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

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

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

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

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

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

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of the Local Government Act 1972.

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## PENSIONS COMMITTEE

01 October 2020

**Subject Heading:**

**INVESTMENT STRATEGY UPDATE and  
EQUITY STRUCTURE REVIEW**

**SLT Lead:**

**Jane West**

**Report Author and contact details:**

**Debbie Ford  
Pension Fund Manager (Finance)  
01708432569**

**Policy context:**

**Debbie.ford@onesource.co.uk**  
Regulation 7 of the LGPS (Management  
and Investment of Funds) Regulations  
2016 requires an administrative authority  
to periodically review this statement

**Financial summary:**

Implementation of the investment strategy  
will be met from restructuring existing  
mandates

**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 includes an update on the progress of the implementation of the Investment Strategy, focussing on a 'health check' of the Funds Investment Strategy and Equity structure review.

Appendix A of this report is exempt from publication by virtue of paragraph 3 and 5 of the Access to Information Procedure Rules set out in the Constitution pursuant to Schedule 12A Local Government Act 1972, as amended as it contains information relating to the financial or business affairs of the investment managers already appointed to the Fund and comparisons of financial information to mandates available in the markets.

## **RECOMMENDATIONS**

That the Committee is asked to:

1. Note Hymans report on the Health check of the Investment Strategy and Equity Structure Review attached as **Appendix A (exempt)**.
2. To consider and agree recommendations from the options outlined in Section 2 of this Report.

## **REPORT DETAIL**

### **1. Background**

- a) The Pensions Committee adopted an Investment Strategy Statement (ISS) at the 28 March 2017 committee meeting and the Fund has made good progress implementing this Strategy, focusing on individual asset classes at various stages of implementation.
- b) Subsequently the Pensions Committee agreed an updated Investment Strategy Statement at its last meeting on the 29 July 2020 (postponed from the cancelled March meeting). This statement is a continuation of development of the investment strategy agreed following the previous review in 2017.
- c) As part of ongoing development of the Strategy the Fund's Investment Advisor has undertaken a "Health Check" of the investment strategy and a review of equities structure. The key aim of this review is to identify whether the long term strategic asset allocation remains appropriate, and if there is scope to improve outcomes.
- d) The attached paper (Appendix A - EXEMPT) has been produced by the Fund's Investment Advisor (Hymans) and summarises their findings from a 'Health Check' of the Funds Investment Strategy and Equity Structure Review. This paper is exempt as it contains information relating to the financial or business affairs of the investment managers already appointed to the Fund and comparisons to mandates available in the markets.
- e) As per the executive summary of Hymans report, attached as Appendix A, the Fund's strategy is now largely in line with agreed asset allocation target, other than the distribution of equity assets and the Royal London Asset Management (RLAM) Multi Asset Credit (MAC) Fund. The proposed options for consideration and next steps are also outlined below:

## **2. Proposed options for consideration and next steps:**

**2.1 Bonds and Cash** - Propose increasing the RLAM MAC allocation from 5% to 7.5% (in line with its long-term target) funded from RLAM corporate bond holdings and profit taking from equity assets. This would equate to a movement of approximately £20m.

***Recommendation 1: Recommend bringing the RLAM MAC allocation to 7.5% (in line with its long-term target).***

**2.2 Real Asset Allocation - Infrastructure** - Consideration needs to be given to topping up the infrastructure allocation as capital is repaid from existing Stafford (SISF II) Fund and the allocation to infrastructure falls. In order to maintain the asset allocation of 7.5% to infrastructure the Fund could consider investing in the Stafford (SISF IV) Fund with a commitment of c£18m. This commitment should be primarily funded from capital being returned from SISF II although any short-term mismatches can be funded from the LCIV Diversified Growth (Baillie Gifford) allocation. The Fund could also consider a phased approach of migrating exposure to infrastructure products available through the London CIV, increasing overall infrastructure exposure to 10% by committing to both SISF IV and the LCIV infrastructure fund. This would equate to a movement of approximately £18m.

***Recommendation 2: Recommend making a €20m (c. £18m) commitment to the next generation Stafford Fund (SISF IV) in order to maintain the target infrastructure allocation.***

Optional, and

***Recommendation 3: Agree in principle to increase the Infrastructure asset allocation to 10% and explore the infrastructure options provided by the LCIV, funded by a reduction in the allocation to the LCIV Diversified Growth Fund (Baillie Gifford). For this increased allocation, we propose considering potential LCIV infrastructure options which include Core Infrastructure, Renewable Energy Infrastructure and the London Fund which may offer exposure to local assets.***

**2.3 Equities – Global Alpha** – LCIV Baillie Gifford (BG) Global Alpha is significantly over the asset allocation target by 8.7% at 23.7% following strong performance over 2020. It is proposed to take profit from this allocation and rebalance this allocation back to 17.5% in line with the Funds rebalancing policy. (The Fund's rebalancing policy will rebalance where there is more than a 5% overweight but only then back to within 2.5% of the target allocation). The Strategic target asset allocation will remain at 15%.

***Recommendation 4: Recommend that the asset allocation to LCIV BG Global Alpha fund be retained at 15% but the allocation be rebalanced back to 17.5% in line with the Fund's rebalancing policy.***

**2.4 Equities – LGIM Fundamental Equity Fund** - within the equity allocation, members are asked to consider replacing the LGIM Fundamental Equity mandate (RAFI index) with a multi-factor mandate in order to diversify exposure away from the value factor. Hymans believe that the LGIM Future World Fund presents a suitable option for the Fund that meets the criteria set out in recommendation 6.

**2.5 Equities – LGIM Global Equity** - Members are also asked to consider increasing the strategic allocation to the Market Cap Equity (currently known as the LGIM Global Equity Fund) to 10% but defer rebalancing to this target from 8% until further options are developed by the London CIV.

***Recommendation 5: Recommend that the strategic allocations to market-cap equity and factor-based equity are both increased from 7.5% to 10.0%. We do not recommend rebalancing the allocation to market cap equity (8.0% vs revised target of 10.0%) as this offsets the retained overweight to Baillie Gifford. We recommend using the proceeds of the equity rebalancing to increase the allocation to multi-factor equity to the revised strategic target.***

***Recommendation 6: Recommend Replacing the LGIM RAFI mandate with a multi factor strategy in order to diversify exposure to factors. Further recommend that the multi factor strategy embed a “carbon-tilt” in order to reduce exposure to climate risk.***

The inclusion of a “carbon-tilt” to the market strategy is aligned with the committee’s belief as set out in the approved Investment Strategy Statement: Climate change and the expected transition to a low carbon economy represents a long-term financial risk to Fund outcomes and should be considered as part of the Committee’s fiduciary duty. The adviser has included a performance comparison in his report with a multi factor strategy with no carbon tilt.

***Recommendation 7: Recommend that the Committee receives a training presentation from LGIM to consider this and other options in greater detail before committing to change.***

***Recommendations 8: Recommend reviewing the market cap passive allocation in 2021 as further options are developed by the London CIV.***

<b>IMPLICATIONS AND RISKS</b>
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**Financial implications and risks:**

The proposal to increase the RLAM MAC allocation from 5% to 7.5% (in line with its long-term target) would equate to a movement of approximately £20m which will be funded by profit taking from equity assets.

This commitment of c£18m to the Stafford (SISF IV) will primarily be funded from capital being returned from SISF II although any short term mismatches can be funded from the LCIV Diversified Growth (Baillie Gifford) allocation.

There is a risk that the timings of returning capital from the Stafford II fund will overlap with the capital calls on the Stafford IV fund. The timings will largely depend on opportunities available to Stafford and the rate of progression within individual projects so it is difficult to predict exact timings in advance. Stafford do expect broad alignment between the two funds (as the old fund is returning cash the new fund is calling capital) it is expected that there will be points where there is a cash surplus/deficit between the funds, although any short-term mismatches can be funded from LCIV Diversified Growth (Baillie Gifford).

An amount in the region of £20m will be required to meet an increase in the asset allocation to Infrastructure from 7.5% to 10%. This will be funded from a reduction in the LCIV Diversified Growth Fund (Baillie Gifford).

An increase to Multi Factor and Market Cap up to 20% from 14.6% will cost in the region of c£40m. Rebalancing the LCIV Baillie Gifford (BG) Global Alpha Fund back to 17.5% will generate c£50m at this time which will be used to fund this increased allocation.

There is reliance on the overweight position on the LCIV BG Global Alpha Fund to fund the restructuring. If there was a market downturn it is expected that equity funds would experience relatively similar falls which would retain the BG Global Alpha overweight position within the equity allocation, although may reduce the extent of the overweight position. However, the extent of the position is such that the fund could incur a relatively isolated fall in value and still be overweight compared to the target allocation.

Implementation costs: Hymans have advised that the transaction costs incurred will depend on the individual spreads on the funds on the day of transition. For illustrative purposes Hymans have taken the latest available spread for each fund and applied this to the proposed transition amount which produces an estimated total transaction cost of c£170k (0.06% of assets being transferred). As with any transition, a level of out of market risk would be incurred when transferring the assets. To minimise this risk, it is recommended to line up trades so that the assets are in cash for the minimum time possible.

Advisory costs: The advisory costs of implementing the changes made to the structure will be incurred through the Investment management consultancy services contracts with Hymans. Costs will be ongoing throughout implementation and the final costs will not be known until this has concluded and is dependent on the options taken forward by the Committee.

Costs arising from the implementation of the investment strategy will be met from the Pension Fund.

**Legal implications and risks:**

The changes proposed will not impact the content of the Investment Strategy Statement as they are within the parameters set out within it. Therefore there is no need to consult on the proposals. Otherwise there are no apparent legal implications of making the proposed amendments.

**Human Resources implications and risks:**

None arise directly 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 EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected  
None arising directly.

<b>BACKGROUND PAPERS</b>
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None

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

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## PENSIONS COMMITTEE

01 October 2020

**Subject Heading:**

**LOCAL GOVERNMENT PENSION  
SCHEME CONSULTATION -  
Amendments to Statutory Underpin  
Jane West**

**SLT Lead:**

**Report Author and contact details:**

**Debbie Ford  
Pension Fund Manager (Finance)  
01708432569  
[Debbie.ford@onesource.co.uk](mailto:Debbie.ford@onesource.co.uk)  
Local Government Scheme Benefits**

**Policy context:**

**Financial summary:**

**No direct cost implications for  
responding to the consultation**

**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 is to advise the Committee of the Ministry for Housing, Communities & Local Government (MHCLG) publication of the Local Government Pension Scheme (LGPS) – Amendment to Statutory Underpin Consultation issued in July 2020.

## **RECOMMENDATIONS**

That the Committee:

1. Note the detail of the attached consultation as **Appendix A** and the response date being the **8 October 2020**.
2. Discuss/provide feedback for inclusion into the consultation responses, if required.
3. Agree to support the response submitted by the Funds Actuary at **Appendix B** and adopt the content for the Havering Pension Fund response.
4. If required, Members delegate the approval of response to the consultation to the S151 Officer and /or the Pensions Committee Chair.

## **REPORT DETAIL**

### **1. Background**

- 1.1. MHCLG is consulting on changes to the regulations governing LGPS.
- 1.2. This consultation outlines details of proposed changes to the benefits of the LGPS and is particularly aimed at LGPS administering authorities, scheme members, scheme employers and their representatives.
- 1.3. It is proposed to remove the condition that required a member to have been within ten years of their normal pension age on 1st April 2012 to be eligible for underpin protection. In removing the discrimination, they are proposing a number of supplementary changes to ensure the revised underpin works effectively and consistently for all members. This follows a successful legal challenge to transitional protection arrangements in the firefighters' and judicial pension schemes (otherwise referred to as McCloud and Sargeant).
- 1.4. MHCLG are inviting views on the consultation attached as **Appendix A**.
- 1.5. This consultation will last for 12 weeks from 16/07/2020 to 08/10/2020
- 1.6. The Scheme Advisory Board (SAB) has summarised the proposals as follows:

- a) Qualifying members would be protected by the application of a revised underpin
- b) Qualifying members will be all who were active in 2008 scheme on 31st March 2012 and accrued benefits in the 2014 scheme without a disqualifying break
- c) Qualifying members who have already left the scheme will have the revised underpin applied retrospectively
- d) Unlike the current underpin qualifying members do not have to have an entitlement to an immediate benefit when they leave the scheme
- e) Members must meet the qualifying criteria in a single membership for underpin protection to apply – so where a member has had a break in service or a period of concurrent employment, they must aggregate the benefits for the underpin to apply
- f) Members who have previously chosen not to aggregate scheme employments will be given a further 12 months to reverse that decision where failure to aggregate would mean they would not meet the revised underpin qualification criteria in either or both unaggregated periods
- g) The revised underpin will take account of early/late retirement adjustments
- h) The revised underpin will apply to death in service and survivor benefits
- i) The revised underpin will be a two-stage process with an initial check done at the ‘underpin date’ which is the earlier of leaving the scheme, reaching Normal Pension Age or death
- j) A second check will be applied at the ‘underpin crystallisation date’ when the member takes their benefits which will take into account early/late retirement adjustments. At this point the revised underpin will, should it apply, increase the benefits payable to the member
- k) Revised underpin protection will cease in respect of membership after 31st March 2022, however final salary protection will continue after that date in respect of membership before that date
- l) Annual Benefit Statements should contain information on the potential impact of the revised underpin but only in respect of membership or benefits accrued to the earliest of the date of leaving, the end of the scheme year or 2008 (Normal Pension Age (NPA)).
- m) If the second underpin check results in an increase to the member’s benefits, this will be included for annual allowance purposes in the year of the ‘underpin crystallisation date’. Any underpin protection is not included in earlier years
- n) Any addition made as a result of the underpin checks will be included for Lifetime allowance purposes when the member takes their benefits.

**1.7. Consultation Response** - Due to the technical nature of the questions and the knowledge required to understand the impact of any responses, officers are proposing to endorse the consultation response submitted by the Fund’s Actuary (Hymans) to MHCLG. The questions and responses can be seen in **Appendix B**.

## IMPLICATIONS AND RISKS

### Financial implications and risks:

It is expected that the McCloud remedy will not have a significant cost impact for the Havering Fund. The SAB asked funds and actuaries to allow for McCloud costs at the 2019 valuation in England and Wales when setting funding strategies. Officers have discussed the impact of the regulation changes with the Fund's actuary and it will not be necessary to revisit the employer contribution rates until the next valuation in 2022.

Early analysis provided by the Fund's Administrators - Local Pensions Partnerships (LPP) which can be seen in the table below shows that 2,881 of members are likely to be in scope (15% based on reported membership at 31 March 2020):

Status	Number in scope	Approx. % expected to benefit	How to handle
Active	2277	30%	Expect software to carry out comparison at leaving
Deferred	418	5%	Expect software to carry out comparison at retirement
<b>Pensioner</b>	<b>186</b>	<b>5%</b>	<b>Expect software to identify cases that require revision</b>
Total	2881		

The current active and deferred members are of no immediate concern as the comparison of benefits will be carried out when they retire. The members already in receipt of pension will need to be reviewed once the final regulations have been published but LPP have advised that, based on their best estimate and current understanding of the recommended changes, only approximately 5% of the 186 pensioners that are in scope will actually require a revision under the new underpin protections. That is approximately 10 revisions to be manually calculated and arrears paid.

The administration of the McCloud changes will be aided by the fact that Havering have always maintained an accurate record of employees working hours for all Fund members, which are used in the calculation of final salary benefits. We are in a reasonable position to be able to implement the changes, without the need to review and update member records back to 2014, once the final Regulations are in place.

Whilst the cost remedy of the McCloud adjustments on the Havering Fund is not significant there will be a need for the Funds Administrator (LPP) to undertake implementation of the underpin which will result in high administrative workloads and increased costs and will require significant, upfront input and incur cost as a

result of systems development, testing and implementation, as well as increased resources with appropriate skills and knowledge. It is anticipated that the Havering Fund may be required to contribute to these costs although these are not known at the time of writing this report.

There will be an impact on the pension accounting disclosures as an allowance has already been made for McCloud in most employers' disclosure reports (FRS102 or IAS19). This allowance, based on analysis by the Government Actuary's Department (GAD), assumed that everyone active in the scheme was eligible for the protections. However, the proposed McCloud remedy now limits eligibility to only members who were active at 31 March 2012. This will reduce the size of the allowance, and reduce the balance sheet liabilities, for a typical employer by more than half of the previously reported McCloud allowance.

Auditors may require this reduction to be reflected in the reports that have been prepared for the March 2020 accounting year end. This will result in additional work and extended timescales for employers to revise their accounts (and incur additional costs for the preparation of revised reports). This will mainly be a cost to the employers and not the Pension Fund

#### **Legal implications and risks:**

The proposals for changes to LGPS Regulations are subject to consultation. The MHCLG should take into consideration all consultees comments before finalising any changes and therefore if Members wish to make comments they should indicate what these are so that they can be submitted within the required deadlines.

#### **Human Resources implications and risks:**

The suggested change in regulations following the McCloud ruling means that for anyone that was an active scheme member of the scheme on 31<sup>st</sup> March 2012 and were still in the scheme on 1<sup>st</sup> April 2014 should receive a pension for the period 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2022 based on either the 2014 CARE scheme benefits or their Final Salary Scheme benefits, if this is better.

The changes will be retrospective and will apply to anyone who has left, retired or died and who didn't meet the old underpin criteria but meets the new one. In some cases, this will mean retrospectively recalculating benefits for pensioners, and paying arrears and interest.

#### **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
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None



Ministry of Housing,  
Communities &  
Local Government

# Local Government Pension Scheme (England and Wales)

Amendments to the statutory underpin



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July 2020



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## Scope of the consultation

Topic of this consultation:	This consultation seeks views on changes to the Local Government Pension Scheme in England and Wales (LGPS). It outlines proposed changes to the LGPS statutory underpin protection to remove unlawful discrimination found by the Courts in relation to public service pension scheme ‘transitional protection’ arrangements. Specifically, we propose to remove the condition that required a member to have been within ten years of their normal pension age on 1st April 2012 to be eligible for underpin protection. In removing the discrimination, we are proposing a number of supplementary changes to ensure the revised underpin works effectively and consistently for all members.
Scope of this consultation:	MHCLG is consulting on changes to the regulations governing the Local Government Pension Scheme (LGPS).
Geographical scope:	These proposals relate to the LGPS in England and Wales only. Separate consultation exercises will be undertaken by the relevant devolved authorities relating to the issues addressed in this consultation as they affect the local government pension schemes in Scotland and in Northern Ireland.
Impact Assessment:	<p><u>Public Sector Equality Duty</u></p> <p>The Ministry of Housing, Communities and Local Government has analysed the proposals set out in this consultation document (MHCLG) to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010. This requires the Department to pay due regard to the need to:</p> <ol style="list-style-type: none"> <li>1) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act</li> <li>2) advance equality of opportunity between people who share a protected characteristic and those who do not</li> <li>3) foster good relations between people who share a protected characteristic and those who do not.</li> </ol> <p>The proposals outlined here are intended to remove age discrimination, which had been found to be unlawful in the</p>

firefighters' and judicial pension schemes, from the LGPS rules governing the underpin. We consider that the changes proposed will significantly reduce differential impacts in how the underpin applies based on a member's age, by removing the age-related qualifying criteria found to be unlawful by the Courts in the context of the firefighters' and judicial pension schemes.

Based on analysis undertaken by GAD on active membership data for the LGPS as at 31<sup>st</sup> March 2019, we anticipate that some differences in how the underpin would apply to members of different age groups would remain. These are set out separately below, along with our assessment of these differences.

**1) Qualification for the underpin** - GAD's analysis shows that older active members on 31<sup>st</sup> March 2019 would be more likely to qualify for the revised underpin than younger active members. This is principally because of our proposal that the 31<sup>st</sup> March 2012 qualifying date for underpin protection is retained. The proportion of members active in the scheme as at 31<sup>st</sup> March 2019 who had been members of the scheme on 31<sup>st</sup> March 2012 is lower for younger members, where experience shows they have a higher withdrawal rate from scheme membership. We consider that members joining the LGPS after 31<sup>st</sup> March 2012 do not need to be provided with underpin protection. Members who joined after this date will have joined the LGPS when either it had already transitioned to the career average structure (for post-1<sup>st</sup> April 2014 joiners), or when it was well publicised that the LGPS benefits were reforming.

**2) Members who benefit from the underpin** - GAD's analysis also shows that active members between the ages of 41 and 55 as at 31<sup>st</sup> March 2019 would be more likely to benefit from the revised underpin (i.e. where the calculated final salary benefit is higher than the calculated career average benefit) than their younger and older colleagues. This reflects previous experience and future expectation that:

- this group are more likely than their older colleagues to experience the pay progression that would make the final salary benefit higher over the underpin period and
- this group are more likely than their younger colleagues to remain in active membership until such time as they would receive the pay progression necessary for the underpin to result in an addition to their pension (e.g. through promotions and other pay increases).

These differential impacts reflect the workings of a final salary scheme, and demonstrate some of the effects that can arise under that design. The Government proposes to move all local

	<p>government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.</p> <p>In relation to sex, we anticipate that, broadly, the proportion of men and women who would qualify for the revised underpin and benefit from that protection matches the profile of the scheme. This assessment is also based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019.</p> <p>Proportionally, GAD's assessment is that men would be marginally more likely to qualify for the revised underpin and to benefit to a greater extent from underpin protection than women. This reflects the fact that, in line with previous scheme experience, the average male LGPS member would be expected to have higher salary progression than the average woman and that women are generally expected to have higher voluntary withdrawal rates than men. Members with longer scheme membership and with higher salary progression would be more likely to receive an addition to their pension through the underpin (i.e. where the final salary benefit is higher).</p> <p>These small differential impacts also demonstrate some of the effects that can arise under a final salary design. The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.</p> <p>Limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the Labour Force Survey (Q1 2020) and the Annual Population Survey (2019) in considering these characteristics. We do not consider that the changes to underpin protection proposed in the consultation will result in any differential impact to individuals with the following protected characteristics: disability, ethnicity, religion or belief, gender reassignment, pregnancy and maternity, sexual orientation and marriage/civil partnership.</p> <p>Further information regarding the equalities impacts of our proposals is contained in paragraphs 111 to 127. In this consultation, we are seeking views from stakeholders on the equalities impacts of the changes proposed. These views will be considered in determining how to proceed following the consultation exercise.</p> <p>The potential equalities impacts of our proposals will be kept under review. A further equalities impact assessment will be</p>
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	<p>undertaken following the consultation at the appropriate juncture.</p> <p><u>Other impacts</u></p> <p>The proposals in this paper are estimated to cost LGPS employers £2.5bn in the coming decades, as protected members retire and begin to receive their benefits. This estimate is based on a number of assumptions regarding the demographics of the LGPS in the years to come. Predicting whether the underpin becomes valuable in the future depends heavily on assumptions on long-term future pay growth trends. The £2.5bn estimate is based on an annual future long-term pay growth assumption of CPI+2.2%, which is the assumption used by GAD for the 2016 valuations of public service pension schemes. If annual future pay growth is less than this, the ultimate costs will be lower (and vice versa).</p> <p>As the LGPS is a funded scheme, employer contribution rates are set through local fund valuations and take into account a number of factors. As a result of this, it is not possible to say precisely how the proposals may impact on any individual employer's contribution rate.</p> <p>None of the changes contained in this consultation require a Regulatory Impact Assessment under the Small Business, Enterprise and Employment Act 2015.</p>
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## Basic Information

To:	<p>This consultation outlines details of proposed changes to the benefits of the LGPS and is particularly aimed at LGPS administering authorities, scheme members, scheme employers and their representatives.</p> <p>Any change to the LGPS is likely to be of interest to other stakeholders as well, such as professional advisers and local taxpayers. We welcome views on the proposals from all interested parties.</p>
Body/bodies responsible for the consultation:	Local Government Finance Stewardship, Ministry of Housing, Communities and Local Government
Duration:	This consultation will last for 12 weeks from 16/07/2020 to 08/10/2020
Enquiries:	<p>For any enquiries about the consultation please contact:</p> <p><a href="mailto:LGPensions@communities.gov.uk">LGPensions@communities.gov.uk</a></p>
How to respond:	<p>Please respond by email to:</p> <p><a href="mailto:LGPensions@communities.gov.uk">LGPensions@communities.gov.uk</a></p>

Alternatively, please send postal responses to:

Local Government Finance Stewardship  
Ministry of Housing, Communities and Local Government  
2<sup>nd</sup> floor, Fry Building  
2 Marsham Street  
London  
SW1P 4DF

When you are responding, please make it clear which questions you are responding to. Additionally, it would be very useful if you could confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:

- your name,
- your position (if applicable),
- the name of your organisation (if applicable),
- an address (including post-code),
- an email address, and
- a contact telephone number.

# Introduction

1. This consultation contains proposals to amend the rules governing ‘transitional protection’ in the LGPS, following a successful legal challenge to transitional protection arrangements in the firefighters’ and judicial pension schemes.

2. In April 2014, a series of changes were made to the Local Government Pension Scheme in England & Wales (LGPS) to reform the scheme’s benefits structure. These changes were implemented as part of a wider project across Government to reform public service pensions and put them on a more sustainable, affordable and fairer footing for the longer term. In the LGPS, these changes included:

- moving benefit accrual from a final salary to a career average basis, and
- linking members’ normal pension age with their State Pension age (but at a minimum of 65).

3. Following negotiations with trade unions, transitional protection for members nearing retirement was implemented by the Government as part of the overall reform package and was designed to ensure that older workers had certainty and would not be any worse off as a result of the reforms made to the scheme. Transitional protection arrangements applied across public service pension schemes and in the LGPS were implemented through a statutory ‘underpin’.

4. Whilst all LGPS members joined the career average scheme in April 2014, members who met certain qualifying criteria (including that they had been within ten years of their final salary scheme normal pension age on 1<sup>st</sup> April 2012) gained statutory underpin protection. Underpin protection means additional checks are undertaken for protected members with the intent of ensuring that the career average pension payable under the reformed LGPS is at least as high as the member would have been due under the final salary scheme. Where it is not as high, scheme regulations provide that an addition must be applied to the member’s career average pension to make up the shortfall.

5. In the ‘McCloud’ and ‘Sargeant’ court cases (which related to the judicial and firefighters’ pension schemes respectively), the Court of Appeal found that the transitional protection arrangements in those schemes directly discriminated against younger members in those schemes and this could not be objectively justified. In July 2019, the Government confirmed its view that the ruling had implications for all the main public service pension schemes, including the LGPS, and that the discrimination would be addressed in all the relevant schemes, regardless of whether members had lodged a legal claim.

6. This consultation sets out how MHCLG propose to amend the statutory underpin to reflect the Courts’ findings in these cases. Primarily, we propose to remove the age requirements from the underpin qualification criteria. However, we are also proposing additional changes to ensure that the underpin works effectively and consistently for all qualifying members following the extension of the underpin to younger members. From April 2022, it is proposed that the period of underpin protection will cease and all active LGPS members will accrue benefits in the career average scheme, without a continuing final salary underpin.

**7. Views from respondents are sought on questions 1 to 29 as well as on the draft regulations attached as annex B.**



# Background

## Public service pension reform and transitional protection

8. In April 2014 and April 2015 the Government introduced reformed public service pension schemes. The changes followed a fundamental structural review by the Independent Public Service Pension Commission (IPSPC), chaired by Lord Hutton of Furness.

9. The Government commissioned the review because the cost of providing the schemes had increased significantly over the previous decades, with most of this increase falling to the taxpayer. At the same time, occupational pension provision in the private sector had changed significantly; employers were increasingly moving away from offering defined benefit pension schemes<sup>1</sup>.

10. In their final report<sup>2</sup>, the IPSPC set out a framework for comprehensive reform of public service pensions that sought to balance concerns about the cost of the schemes to taxpayers and the need to ensure decent levels of retirement income for those who have devoted their working lives in the service of the public.

11. The Government accepted Lord Hutton's recommendations as the basis for consultation with scheme employers, trade unions and other interested parties. During negotiations the Government agreed to protect those public service workers who, as of 1 April 2012, had ten years or less to their normal pension age (NPA)<sup>3</sup>, as they had least time to prepare.

12. The reforms were implemented in the LGPS in England and Wales from 1<sup>st</sup> April 2014, and in the other main public service pension schemes from 1<sup>st</sup> April 2015. The main features of the reformed schemes include later retirement ages to reflect the fact people have been living longer, higher employee contributions to rebalance the costs of the schemes between the members and taxpayers, and pensions based on average earnings rather than on pay at the point members retire or otherwise leave the schemes.

13. The schemes were designed to ensure that members would have good pensions, which at least met the target levels identified by Lord Turner's Pension Commission on the levels of income needed in retirement. The reformed schemes should provide many low and middle earners working a full career with pension benefits at least as good as, if not better than, the benefits they would have received under the previous arrangements.

14. The reformed schemes remain among the most generous available in the UK, and an important part of the remuneration of public service workers. Public service pension

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<sup>1</sup> Chart Ex. 1, p8 of IPSPC interim report, October 2010, [https://www.ucu.org.uk/media/4328/Independent-Public-Service-Pensions-Commission---interim-report-7-Oct-10/pdf/hutton\\_pensionsinterim\\_071010.pdf](https://www.ucu.org.uk/media/4328/Independent-Public-Service-Pensions-Commission---interim-report-7-Oct-10/pdf/hutton_pensionsinterim_071010.pdf)

<sup>2</sup> <https://www.gov.uk/government/publications/independent-public-service-pensions-commission-final-report-by-lord-hutton>

<sup>3</sup> In the 2008 Scheme, a member's normal pension age was known as their normal retirement age. However, for consistency, in this consultation document we refer to it as their normal pension age or their NPA.

provision compares favourably with pension provision in the private sector. In 2019 34% of all employees with workplace pensions in the public sector received contributions of at least 20% from their employer. This compares with just 3% of all employees with workplace pensions in the private sector who received at least 20% from their employer<sup>4</sup>.

## Reform in the LGPS

15. In the LGPS, the final salary scheme that existed prior to these reforms was known as **‘the 2008 Scheme’**. The reform package implemented from April 2014 (**‘the 2014 Scheme’**) through the Local Government Pension Scheme Regulations 2013<sup>5</sup> (**‘the 2013 Regulations’**) consisted of the following main elements:

- fundamentally, and consistent with the approach taken across the public sector, a move to future benefit accrual based on a member’s pay over their career (a ‘career average’ structure), from a structure where member’s benefits were based on a member’s pay at leaving the scheme (a ‘final salary’ structure). Importantly, where active members had membership of the LGPS prior to April 2014 and did not have a disqualifying break in service<sup>6</sup>, but had aggregated their membership, they retained a ‘final salary link’ that meant their pay at point of leaving the scheme would still be used in calculating their 2008 Scheme benefits, even where this is after April 2014.
- a move from a NPA of 65 to a NPA linked to a member’s State Pension age, subject to a minimum of 65 (currently ranging from 65 to 68), but with members still able to retire as early as 55 or as late as 75, with actuarial reductions or increases applied, respectively.
- a move from a 1/60<sup>th</sup> accrual rate to a 1/49<sup>th</sup> accrual rate. A pension scheme’s accrual rate is the proportion of a member’s pay that they receive for each year of membership. The change in the LGPS accrual rate in the 2014 Scheme was a 22% improvement from that which applied in the 2008 Scheme.
- revisions to employee contribution bandings. From April 2014, employees’ contributions to the LGPS were banded from 5.5% of earnings (for members earning less than £13,500 per year) up to 12.5% of earnings (for members earning over £150,000 per year). Contribution rates had also been banded in the 2008 Scheme, but the range had been narrower, from 5.5% to 7.5% of earnings.
- the introduction of a 50/50 section, giving scheme members the flexibility to pay half the contributions for half the pension accrual for a period of time, whilst still retaining full life cover and ill-health cover.

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<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2019provisionaland2018finalresults#contributions-to-workplace-pensions>

<sup>5</sup> <http://www.legislation.gov.uk/ukSI/2013/2356/contents>, as amended

<sup>6</sup> Where referred to in this document, a ‘disqualifying break in service’ is a continuous break of more than five years in active membership of a public service pension scheme.

16. As a whole, the package was designed to achieve the Government's aims in making the LGPS more sustainable, affordable and fairer in the longer term. In particular, the combination of the move to a career average basis and the improvement to the LGPS's accrual rate should mean that many low and medium paid members will receive a pension from the 2014 Scheme at least as good as the pension they would have received from the 2008 Scheme. In addition, whilst LGPS employer contributions vary, members will benefit from significantly higher employer contributions than the average applicable in the private sector.

## The statutory underpin

17. The LGPS provided transitional protection to its older workers via a statutory underpin (hereafter referred to as 'the underpin'). All members moved into the 2014 Scheme on the reform date of 1<sup>st</sup> April 2014, but 'protected members' (being the older group of members who met certain qualifying criteria and originally had underpin protection) were given an underpin that provides their retirement pension cannot be less than it would have been in the 2008 Scheme. In some public service pension schemes, tapered protections were provided to members who were between 10 and 14 years from their NPA on 1<sup>st</sup> April 2012, and so were not eligible for full protection (which was reserved for those within ten years of their NPA on 1<sup>st</sup> April 2012). However, in the LGPS, there were no tapered protections.

18. Underpin protection differs from the approach used in other main public service pension schemes<sup>7</sup> where older workers who met the criteria for transitional protection stayed in their final salary schemes after separate, new career average schemes were introduced in April 2015. In those schemes, different rules may therefore apply to protected and unprotected members in relation to areas of scheme design including contribution rates, survivor benefits and ill health retirement.

19. By contrast, the existing underpin only has application in relation to the value of a protected member's pension at their 'underpin date' (see paragraph 20 for further details). All members have participated in the reformed career average scheme from April 2014 and the same rules in relation to contributions and benefits apply to all members in the same way.

20. Underpin protection in the LGPS was implemented through regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014<sup>8</sup> (**'the 2014 Regulations'**). At a high level, underpin protection under regulation 4 works in the following way:

- Underpin protection is granted to those who were active members in the LGPS on 31<sup>st</sup> March 2012 and who on 1<sup>st</sup> April 2012 were 10 years or less from the NPA

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<sup>7</sup> With the exception of the local government pension schemes in Scotland and Northern Ireland who took a similar approach to the LGPS in England and Wales.

<sup>8</sup> <http://www.legislation.gov.uk/uksi/2014/525/contents/made>, as amended

applicable to the member under the 2008 Scheme (usually 65<sup>9</sup>)<sup>10</sup> (regulation 4(1)(a)).

- Those who meet the basic criteria for underpin protection retain this so long as they are:
  - in active membership in the 2014 Scheme the day before their ‘underpin date’ (see below),
  - do not have a disqualifying break in service after 31<sup>st</sup> March 2012, and
  - have not drawn benefits from the 2014 Scheme before their underpin date (regulation 4(1)(b) to (d) and (3)).
- The underpin test is carried out on an individual’s ‘underpin date’ which is the earlier of:
  - the date the protected member reaches their NPA under the 2008 Scheme (usually 65), or
  - the date the protected member ceased to be an active member of the scheme with an immediate entitlement to a benefit (regulation 4(2)).
- The underpin test is carried out by comparing the ‘assumed benefits’ (i.e. the career average benefits the protected member has accrued) against the ‘underpin amount’ (i.e. the final salary benefits the protected member would have accrued if the scheme had not been reformed) (regulations 4(5) and (6)). These paragraphs contain detailed provisions which enable administrators to take into account a variety of factors in the comparison of benefits. For example, where the protected member is due to receive an enhancement to their 2014 Scheme benefits as a result of retiring on ill-health grounds, the difference between that enhancement and the enhancement they would have received under the 2008 Scheme would be considered.
- If the underpin amount is calculated to be higher than the assumed benefits on the underpin date, the protected member’s pension account is to be increased by the difference (regulation 4(4)).

## The McCloud and Sargeant cases

21. Soon after the reformed scheme benefit structures were introduced in other public service pension schemes in April 2015, legal challenges were brought against the transitional protection arrangements in the judicial and firefighters’ pension schemes (‘McCloud’ and ‘Sargeant’, respectively) on various grounds including that the transitional protections offered to older members constituted unjustified direct age discrimination. In those cases, younger firefighters and judges argued that younger members were treated less favourably than older members who were given transitional protection. The Court of

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<sup>9</sup> By virtue of regulation 24(4) of the 2014 Regulations, some groups had a protected 2008 Scheme NPA of 60 in relation to their 2008 Scheme benefits.

<sup>10</sup> By virtue of regulation 9(1) of the 2014 Regulations, members who were not active in the LGPS on 31<sup>st</sup> March 2012, but who were active in another public service pension scheme on that date and who meet certain qualifying criteria may also have underpin protection

Appeal ruled in December 2018<sup>11</sup> that transitional protection in the judicial and firefighters' pension schemes gave rise to unlawful age discrimination.

22. The Government sought permission to appeal to the Supreme Court. This application was refused on 27 June 2019. In a written ministerial statement on 15 July 2019<sup>12</sup>, the Government explained that it accepted that the Court of Appeal's judgment had implications for all schemes established under the Public Service Pensions Act 2013, as all schemes had provided transitional protection arrangements for older members. The Government confirmed that it would take steps to address the difference in treatment across all schemes and for all members with relevant service, regardless of whether they had lodged a claim. The matter has been remitted to the Employment Tribunals to determine a remedy for claimants<sup>13</sup>. Since summer 2019, MHCLG have been considering the changes necessary to remove the unlawful discrimination from LGPS regulations, and in February 2020 held technical discussions with the Scheme Advisory Board on these proposals.

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<sup>11</sup> <https://www.judiciary.uk/wp-content/uploads/2018/12/lord-chancellor-v-mcloud-and-ors-judgment.pdf>

<sup>12</sup> <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-15/HCWS1725/>

<sup>13</sup> The LGPS in England and Wales does not have any ongoing court cases relating to its underpin protection.

# Addressing the discrimination

## Our approach

23. In the McCloud and Sargeant cases, the Courts identified unjustified age discrimination in transitional protection arrangements in the Judicial and Firefighters' Pension Schemes. In relation to the LGPS, this difference in treatment exists between two groups of LGPS members:

- those who were in service on 31<sup>st</sup> March 2012 and were within ten years of NPA on 1<sup>st</sup> April 2012, therefore benefiting from underpin protection and 'better off' than the second group; and,
- those who were in service on 31<sup>st</sup> March 2012 and were more than ten years from NPA, were not eligible for underpin protection and therefore 'worse off' than the protected members (as they were not guaranteed a pension of at least the level they would have received in the final salary scheme).

24. At a high-level, our proposal for removing the difference in treatment from the LGPS is to extend underpin protection to the second group of members listed above – i.e. those who were not old enough to receive underpin protection when it was originally introduced. This should ensure that the two groups listed are treated equally for benefits accrued from April 2014 onwards. This proposal is described in more detail in the next section ('Detailed proposals'). The updated underpin is referred to here as 'the revised underpin'. The members who would be in scope of the revised underpin, both the group originally protected and those who would newly gain underpin protection under our proposals, are collectively referred to as 'qualifying members' in this document.

25. Consultees may be aware that Government has separately recently launched a consultation<sup>14</sup> seeking views on this matter as it applies to most of the other main public service pension schemes<sup>15</sup>. As noted already, transitional protection arrangements were different in other public service pension schemes and therefore different issues arise in considering an appropriate remedy for the discrimination found in McCloud and Sargeant. That other Government consultation seeks views on two options for removing the discrimination in those schemes, both involving an element of member choice between the reformed career average schemes and the legacy final salary schemes.

26. Member choice is being considered in relation to other public service pension schemes because, in those schemes, the two groups of members have participated in different pension schemes since April 2015 with different benefits between reformed and legacy schemes and, potentially, different employee contribution rates. This is not the case in the LGPS because underpin protection is designed to ensure that a qualifying member is better off without needing to make a choice.

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<sup>14</sup> <https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes>

<sup>15</sup> The LGPS is out of scope for the other Government consultation.

27. As set out in paragraphs 17 to 20, the underpin is principally an administrative test undertaken at the earlier of the date a qualifying member leaves active service and the date they reach their 2008 Scheme normal pension age. It is designed to guarantee that a qualifying member's pension calculation gives them the better of a) the pension they have built up in the career average 2014 Scheme and b) the pension they would have built up in the final salary 2008 Scheme, over the same time period.

**Question 1 – Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?**

28. To achieve the full benefits of the career average reforms made in April 2014, it is the Government's view that the underpin period should end for all qualifying members at a specified point in time.

29. Under the rules governing the existing underpin, no further underpin dates will arise beyond 31st March 2022, as this is the last date a protected member can reach their 2008 Scheme NPA. In considering how to equalise treatment between the unprotected and protected groups, we propose that both groups will be given underpin protection from 1st April 2014 to 31st March 2022 (or to the members' underpin date, where this is earlier). We consider that this approach will mean there is a consistent period of protection for all qualifying members – i.e. those who were members of the scheme on 31st March 2012 and who went on to have 2014 Scheme membership without a disqualifying break in service (and who aggregated their membership), regardless of their age.

30. From 1st April 2022 it is our intention that all service in the LGPS will be on a career average basis, with no underpin. As set out in the Background section, we believe that the move from a final salary to a career average pension scheme design in April 2014 created a fairer structure for LGPS members. Under the 2014 Scheme, those public servants who see considerable increases in earnings over their career – and particularly towards the end of their career – are no longer likely to be relatively favoured compared with their colleagues who did not. Phasing out underpin protection is an important step to achieving the full benefits of a career average scheme design.

**Question 2 – Do you agree that the underpin period should end in March 2022?**

31. We are keen to ensure that the group of younger members who, under our proposals, would gain underpin protection have an equivalent level of protection to their older colleagues. It is therefore proposed that the underpin comparison would not, for most qualifying members, take place upon the underpin period ending in March 2022. Instead, the comparison of 2008 Scheme and 2014 Scheme benefits would take place at a qualifying member's underpin date (generally, the earlier of the member's date of leaving and age 65), even if this is after March 2022 – i.e. qualifying members will retain an ongoing 'final salary link', consistent with their pre-2014 pension accrual. For those who are currently at an earlier stage of their career, and who may have promotions and other salary increases later in their career, this ensures a fairer comparison of the two schemes' benefits. The final pay calculation would be based on a member's pay over their last 365

days of active membership, and would take into account the existing 'lookback' provisions where members have had a reduction in pay<sup>16</sup>.

32. As part of this project we have considered how the existing underpin regulations work and the following section contains details of changes we are proposing. Collectively, the changes mean that the revised underpin regulations will differ in a number of respects from the existing underpin provisions contained in regulation 4 of the 2014 Regulations. We consider that these amendments are essential to ensure that the underpin regulations are clear and consistent and provide a framework of protection that works more effectively for all stakeholders and which, at the same time, provides in essence the same level of protection to scheme members.

33. Nonetheless, to avoid creating new differences in treatment in the LGPS, we propose that the amended regulations will apply retrospectively from 1<sup>st</sup> April 2014, ensuring that all qualifying members are subject to the same detailed provisions. We believe this is the best approach and one which will allow us to be confident we are addressing the findings of the Courts, and removing differences in treatment between older and younger workers. We do not plan that members' accrued rights would be detrimentally affected as a result of this approach, but we welcome comments from stakeholders if there are specific concerns about potential accrued rights issues.

34. In proposing these changes, we have considered the legal principle of 'minimum interference'. The courts have found this principle generally applies to pensions changes following an equal pay issue. Whilst it has not been recognised outside the context of equal pay, it could be considered in other contexts too. 'Minimum interference' means that the scheme is obliged to make the minimum necessary interference to ensure the scheme operates lawfully. Whilst some of the changes outlined in this consultation paper are not a direct consequence of the Courts' findings in the McCloud and Sargeant cases, we believe that they are necessary for the effective and consistent application of underpin protection to members of the LGPS.

35. Retrospective application of the proposed regulations means that certain cases will need to be revisited by scheme administrators. Below are examples of such cases:

- Cases where a member had underpin protection originally and the revised underpin may have applied differently to them. In practice, this may be all cases where a member already has underpin protection and has since had their underpin date.
- Cases where a member does not currently have underpin protection, but would have under the revised underpin, and has since retired or left the LGPS with a deferred benefit.
- Cases where a member does not currently have underpin protection, but would have under the revised underpin, and has since transferred out of the LGPS or trivially commuted their benefits.

36. There will also be more difficult cases, for example, where members who may have benefitted from the proposals outlined in this consultation have died. In such cases, it is

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<sup>16</sup> Under the 2008 Scheme, members with pay reductions or restrictions in their last ten years of continuous employment may have the option to have their final pay calculated as the average of any 3 consecutive years' pay in their last 13 years.



our view that administrators should take all steps to ensure that any retrospective increase in a member's pension arising from the underpin is taken into account in respect of relevant survivor benefits that became payable at the time of the member's death.

37. We are aware that retrospective application of the proposed draft regulations will lead to significant administrative complexity. We do not anticipate any recalculations would result in members' benefits being detrimentally affected. Further consideration of the complexities arising from retrospection are considered in the Implementation and Impacts section.

**Question 3 – Do you agree that the revised regulations should apply retrospectively to 1<sup>st</sup> April 2014?**

38. This consultation sets out proposals which are principally about removing unlawful discrimination from the LGPS. Achieving this key aim, and minimising the risk of further issues arising, has therefore been our primary concern in coming forward with these proposals. However, in doing so, we have been conscious of the additional administrative burden these changes would create and have sought to minimise the impacts wherever possible. We consider that the proposed approach is the simplest way we can effectively ensure that the revised underpin works effectively and fairly for all. Further consideration of the potential administrative impacts of the proposals is outlined in paragraphs 134 to 136.

# Detailed proposals

39. This section contains our detailed proposals on the proposed amendments to the underpin. Draft regulations have been prepared (**annex B**) and we would welcome general comments on those draft regulations, as well as specific comments on the below questions.

**Question 4 – Do the draft regulations implement the revised underpin which we describe in this paper?**

**Question 5 – Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?**

**Question 6 – Do you have other comments on technical matters related to the draft regulations?**

## The revised underpin – basic elements

40. The approach we have taken to the revised underpin consists of a number of basic elements, as described here.

### Qualification criteria

41. Fundamentally, under the revised underpin, members would no longer need to have been within ten years of their 2008 Scheme NPA to qualify for underpin protection. Members who were active in the 2008 Scheme on 31st March 2012 and who have accrued benefits under the 2014 Scheme without a disqualifying break in service (five or more years) would have underpin protection, subject to aggregation requirements.

42. An aspect of the existing underpin regulations that we are seeking to change is the requirement that a member must leave active service with an immediate entitlement to a pension for underpin protection to apply to them (regulation 4(1)(b) of the 2014 Regulations). We anticipate that when underpin protection is extended to younger workers, it is much more likely that members will leave the scheme before having an immediate entitlement to benefits, meaning they would not, as things stand, benefit from underpin protection. Under the revised underpin, we propose that underpin protection would apply where a member leaves with either a deferred or an immediate entitlement to a pension. This approach is also more likely to ensure that LGPS regulations are compliant with preservation requirements under the Pension Schemes Act 1993, which broadly require<sup>17</sup> that schemes do not contain rules which mean that leavers prior to normal pension age are treated less favourably than leavers at normal pension age. The retrospective application of this change would also aim to ensure that any members protected under the

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<sup>17</sup> Section 72 of the Pension Schemes Act 1993

existing underpin who have suffered detriment due to the current wording would regain their underpin protection<sup>18</sup>.

43. As per existing requirements, members who leave the LGPS without an immediate or deferred entitlement to a pension<sup>19</sup> would not have underpin protection, as they would only be eligible for a refund of their contributions, aggregation with another LGPS record or a transfer to another scheme

**Question 7 – Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?**

**Question 8 – Are there any other comments regarding the proposed underpin qualifying criteria you would like to make?**

## **Aggregation**

44. In reviewing the operation of the existing underpin, it has become clear that the current regulations do not implement our policy intent as clearly as we would like in one important respect, and the existing regulations could cause substantial new issues to arise. Whilst the LGPS is one pension scheme, with rules defined at the national level through scheme regulations, it is a locally administered scheme, with 87 administering authorities throughout England and Wales. It is an important principle for the effective and efficient administration of the scheme that administrators are generally able to calculate pension benefits independently and do not need to obtain data from other LGPS administrators to be able to undertake basic pension calculations. Such an approach also ensures that the scheme is run in accordance with the principle of ‘data minimisation’, where personal data is not shared between data controllers any more than is necessary for the effective administration of a member’s pension.

45. To prevent such complications, the LGPS has aggregation provisions which mean that separate pension records can be joined together<sup>20</sup>. This means that, in most cases, members can choose whether to have LGPS records aggregated (or ‘joined up’) or kept separate from one another. Since 1<sup>st</sup> April 2014, aggregation is usually automatic<sup>21</sup> - where a member leaves an employment with a deferred benefit and then rejoins the LGPS

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<sup>18</sup> For example, members who, under regulation 24(1) of the 2014 Regulations, had a protected NPA of 60 in the 2008 Scheme. Some of these protected members would have been younger than 55 in April 2014 and may not have had an immediate entitlement to benefits at their underpin date.

<sup>19</sup> This applies where members do not have a qualifying service for a period of two years (regulation 3(7) of the 2013 Regulations). Special provisions apply where members joined before 1<sup>st</sup> April 2014.

<sup>20</sup> This does also require data sharing between administering authorities. However, the transfer of a record from one authority to another following a structured aggregation process is likely to be simpler and less prone to error than ad hoc sharing necessary to undertake pension calculations from time-to-time over a member’s career.

<sup>21</sup> Where a member only has a deferred refund entitlement (i.e. has left with a refund entitlement which has not yet been paid) from a ceased period of LGPS membership, this must be aggregated with their subsequent LGPS membership and there is no choice (regulation 22(5) and (6) of the 2013 Regulations).

in another employment (potentially in another pension fund), they have 12 months to elect to their administrator for aggregation not to apply<sup>22</sup>.

46. Where a member takes a decision which means their LGPS benefits are unaggregated, these are generally administered as separate entitlements. Where a member takes a decision which means their LGPS benefits are aggregated, their combined record is generally administered as one period of membership. For example, where a member with 2008 Scheme membership has not had a disqualifying break in service and aggregates that record with another LGPS membership, they would retain their final salary link on the combined record. By contrast, if the same member decides not to aggregate their membership they would lose their final salary link<sup>23</sup> on the unaggregated record. These rules preserve the approach described above, through which local administrators are generally able to calculate separate benefits independently.

47. However, regulation 4 of the 2014 Regulation does not appear to include an aggregation requirement for underpin protection to apply. A strict interpretation of regulation 4(1)(a) therefore appears to suggest that where, for example, a member was:

- a) active in the LGPS on 31<sup>st</sup> March 2012,
- b) subsequently active in the 2014 Scheme in a separate employment without a disqualifying break in service, and
- c) the two records were not aggregated,

underpin protection would still apply. In our view, this would be extremely difficult for scheme administrators to effectively administer in the coming decades. It is also inconsistent with the general approach MHCLG has adopted in relation to the administration of the LGPS, as described in paragraph 45, and as has been applied in relation to the final salary link.

48. Where there is no requirement to aggregate benefits, administrative difficulties would not only arise in determining who has underpin protection (as a previous record may be held in another fund), but also in actually undertaking the underpin comparison. One scenario that may be likely to occur more frequently, as a result of the significant expansion of the underpin proposed in this document, would be situations like the following:

- A member has two, unaggregated LGPS records in separate funds:
  - Membership one – active from 2011 to 2016, and
  - Membership two – active from 2017 to 2022.
- As the member was in active service on 31<sup>st</sup> March 2012 and had 2014 Scheme membership, without a disqualifying break in service, they have underpin protection.
- Upon leaving membership one, the member would have an underpin date (calculated in the normal way).

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<sup>22</sup> By virtue of regulation 22(8) of the 2013 Regulations.

<sup>23</sup> By virtue of regulation 3(8) of the 2014 Regulations.

- The member would also have an underpin date upon leaving membership two for their active membership in the scheme over the underpin period (for this member, 2014 to 2016 and 2017 to 2022). This would require the second fund to undertake an underpin comparison for the whole period using data they hold and data they need to obtain from the other fund (in relation to membership one).
- In this situation, it may also need to be considered whether any underpin addition arising should be split between the two funds and the two employers, so as to ensure liabilities are appropriately held.

49. This would clearly be extremely administratively complex and potentially lead to an increased likelihood of errors being made. It is likely that other similar scenarios would also arise, and that the administrative complexities would continue for many years (as some members' underpin date may not take place for 30 or 40 years).

50. In light of this, we are proposing that regulation 4 of the 2014 Regulations is amended to make clear that members must meet the qualifying criteria in a single membership (a 'relevant Scheme membership' as defined in the proposed regulations) for underpin protection to apply. So, where a member has had a break in service, or a period of concurrent employment, their benefits must be aggregated for underpin protection to apply. The introduction of the concept of 'relevant scheme membership' has allowed us to define more clearly in the regulations the benefits administrators should be assessing when undertaking underpin calculations.

51. As our intention is for the revised underpin regulations to apply retrospectively, it is possible these changes will mean that some members of the LGPS who have underpin protection at the moment (across separate LGPS memberships) would lose this. To ensure that no member is worse off as a result of our proposed amendments, we are proposing that active and deferred members are given an additional 12 months to elect to aggregate previous periods of LGPS membership, where such a decision would mean they have 'relevant Scheme membership' and therefore would have underpin protection. It is not proposed that this decision would be required for pensioner members, whose existing pensions would be unaffected by the aggregation changes outlined here. Circumstances where current pensioner members have underpin protection which is based on unaggregated membership and they have received an addition to their pension as a result of their underpin protection are expected to be rare<sup>24</sup>.

52. The additional 12 months would apply from the date the regulations come into force. This additional election period would not apply in respect of other periods of membership members may wish to aggregate, only to periods where a failure to aggregate would mean the member would not obtain underpin protection<sup>25</sup>. Good communications with members

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<sup>24</sup> Such situations are expected to be rare due to a combination of factors. Generally, we expect that most protected LGPS members currently retiring are better off under the career average scheme, due in part to its substantially better accrual rate. Moreover, LGPS administrators are unlikely to be aware that a member has underpin protection if a member has not aggregated their previous LGPS membership. We expect that situations where a member has been awarded an underpin on unaggregated membership by their administrator and that subsequent underpin calculation has shown the final salary pension to be better than the member's career average pension would be rare.

<sup>25</sup> However, it should be noted that LGPS employers generally have the ability to allow aggregation beyond the statutory limits set out in scheme regulations.

in this situation will be crucial so that they understand whether this election period applies to them and the implications of the decision they are being asked to consider. As set out in paragraphs 131 and 133, we would plan to work closely with the Scheme Advisory Board on member communications to support the changes proposed in this paper.

53. The Public Service Pensions Act 2013 applies certain requirements where a responsible authority<sup>26</sup> proposes to make scheme regulations containing retrospective provisions which appear to the authority to have 'significant adverse effects in relation to the pension payable to or in respect of members of the scheme' (section 23(1))<sup>27</sup>. Specifically, where this is the case, the following applies:

- The authority must obtain the consent of persons (or representatives of the persons) who appear to the responsible authority to be likely to be affected by the provisions (sections 23(1) and (3)).
- The authority must lay a report before Parliament (section 23(4)).
- The regulations become subject to the affirmative procedure, meaning they have to be approved by a resolution of each House of Parliament (sections 24(1)(b) and 38).

54. We welcome stakeholders' views on whether the changes we describe in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect of affected members. Whilst the changes would have retrospective application, the additional 12 month election period we are proposing would ensure that members have the opportunity to aggregate their pension records and obtain underpin protection if they wish. Members who wish to keep their records separate (perhaps as they have re-joined the LGPS in a lower paid post and do not want a final salary link) would also be able to retain this position by doing nothing.

**Question 9 – Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?**

**Question 10 – Do you agree with our proposal that certain active and deferred members should have an additional 12 month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?**

**Question 11 – Do you consider that the proposals outlined in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?**

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<sup>26</sup> Under section 2 and schedule 2 of the Public Service Pensions Act 2013, the Secretary of State is the responsible authority for the LGPS in England and Wales.

<sup>27</sup> Certain requirements also apply under section 23(2) of the Public Service Pensions Act 2013 where the responsible authority proposes to make scheme regulations that are retrospective in nature, but which have significant adverse effects in other ways (for example, in relation to injury or compensation benefits). We are content that these provisions would not apply in respect of these proposed changes.

## Achieving a fair and consistent underpin

55. Alongside the changes necessary to remedy the discrimination found by the Courts, and the aggregation proposal above, we are also proposing some changes to underpin provisions to ensure that the underpin works effectively and consistently for all members.

56. **Breaks in service of less than five years** – the 2014 Regulations do not currently make clear whether it is permitted for the underpin to be re-calculated if a protected member leaves active service and returns without a disqualifying break in service (i.e. within five years). We propose that where a qualifying member leaves active service, rejoins within five years and aggregates their benefits, a further underpin comparison would be undertaken when they next reach their underpin date (i.e. leave active service or reach their 2008 Scheme NPA), using their final salary at the most recent date of leaving (and the results of the previous comparison disregarded). Taking this approach means that promotional pay increases that may apply where a qualifying member progresses in their career are taken into account in their underpin calculations. It also ensures younger members of the scheme have equivalent protection to their older colleagues (whose final salary benefit is based on their pay at the end of their career, after relevant promotions and pay rises). It may also benefit those qualifying members who are more likely to have a break in employment, such as women<sup>28</sup> or those who have a disability. However, it is proposed that qualifying members who re-join the LGPS after their 2008 Scheme NPA would not have a further underpin date, even if they aggregate their previous pension rights. This is consistent with our general approach that underpin protection only provides protection until a member's 2008 Scheme NPA.

57. **Early/late retirement factors** - When a protected member leaves the scheme, the current underpin calculation does not take into account the impact of early/late retirement factors, which may mean the calculation does not correctly identify the scheme in which the member would receive the higher benefits. This situation arises because of differences in NPAs in the 2008 and 2014 Schemes, which may mean early and late retirement factors apply at different rates. We therefore propose that the revised underpin should include a 'check' to ensure that, at the point a qualifying member takes their benefits from the scheme, they are still due to receive at least the pension they would have received under the 2008 Scheme, after the application of any early/late retirement factors. Further detail on how this will work is outlined in the next section regarding the two-stage process we intend to adopt.

58. **Death in service** – the existing definition of the underpin date set out in regulation 4(2) of the 2014 Regulation do not make clear what should happen where a member who has underpin protection dies in active service. On a strict interpretation, the 2014 Regulations would therefore appear to mean that there is no underpin comparison for such a member (which could reduce any survivor benefit that may be payable). We do not believe that was or should be the policy intent. In relation to the revised underpin, we therefore propose that there would be a clear requirement for an underpin comparison to be undertaken where a qualifying member dies in service.

59. **Survivor benefits** – it is not always clear how the survivor benefits provisions in the 2013 Regulations apply in relation to the underpin, and whether increases in benefits

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<sup>28</sup> <http://www.parliament.uk/briefing-papers/sn06838.pdf>

arising from the underpin should be included in the calculation of survivor benefits following the death of a protected member (from any status). We intend that the amended regulations will make clearer how the underpin applies in relation to survivor benefits. In general terms, it is our policy that where a qualifying member has an addition to their pension arising from the underpin, this should be taken into account in determining the value of relevant survivor benefits, where such benefits are based on the value of the qualifying member's pension. The next section of this paper outlines our policy on the underpin and survivor benefits in more detail.

60. Together and individually, the changes we describe in paragraphs 56 to 59 are intended to be beneficial for scheme members, and are intended to ensure that the revised underpin works for all members with underpin protection in a consistent and effective way. As outlined in paragraph 34, we have considered the principle of minimum interference but believe that these changes are both appropriate and necessary.

### **Question 12 – Do you have any comments on the proposed amendments described in paragraphs 56 to 59?**

#### **A two-stage process**

61. Under current provisions, the underpin calculation takes place at a single point in time – a member's underpin date, being the earlier of the date a member leaves active service with an immediate entitlement to a pension, and the date they reach their 2008 Scheme NPA. This has its advantages, such as in respect of administration. However, in the round, we now consider a two-stage underpin process would provide a more robust form of protection and the draft regulations attached propose such an approach. Under this, all qualifying members would have an 'underpin date' and an 'underpin crystallisation date':

- the purpose of the underpin date would be to provide for a provisional assessment of the underpin, broadly comparing the qualifying member's 2014 Scheme benefits in a relevant scheme membership against the 2008 Scheme benefits they would have accrued over the same period, in respect of the same membership. The underpin date would take place at the earliest of the date the qualifying member:
  - leaves active service in a relevant scheme membership,
  - reaches their 2008 Scheme NPA, or
  - dies.

Regardless of the outcome of this provisional comparison, there would be no adjustment to a member's pension at their underpin date. The purpose of the comparison at a member's underpin date would primarily be so that the member has early information on how the underpin may apply to them. This recognises that there may be many years between a qualifying member's underpin date and their underpin crystallisation date, when the final comparison is due to take place.

- The purpose of the underpin crystallisation date would be to provide for a final check at the point the qualifying member's benefits from the scheme are 'crystallised' (where the member takes their pension from the scheme). The check would be designed to ensure that qualifying members always receive at least the



higher of the pension they would have been due from the 2014 Scheme and the 2008 Scheme, taking into account the impact of factors like early/ late retirement adjustments.

62. We consider that the use of a two-stage process will achieve the following:

- Fundamentally, it should give qualifying members greater confidence that the underpin process has given them the benefit that is better for their own personal situation, even if they take their benefits many years after they leave the scheme.
- By undertaking an initial comparison at a member's underpin date, it would give qualifying members information about how the underpin may apply to them at the earliest possible date, even if such calculations would only be provisional.
- It is more compatible with the revised underpin where members can re-join, aggregate their membership and have a further underpin date at a subsequent point in time. Until the final underpin check at a member's underpin crystallisation date, there will be no change to a member's active or deferred pension arising from the underpin.
- It reflects the fact that for most members retiring on age grounds, early and/or late retirement factors will apply in calculating their 2008 and/or 2014 Scheme benefits. As these will not apply in the same way to a member's 2008 and 2014 Scheme entitlements (unless their 2008 Scheme NPA is the same as their State Pension age), a final check at the point benefits are paid is necessary to ensure the member is getting the higher benefit.

63. Further detail on the proposed two-stage process is contained in **annex C** and illustrative examples of a variety of scenarios are included in **annex D**.

### **Question 13 – Do you agree with the two-stage underpin process proposed?**

#### **Underpin period and final salary link**

64. As discussed earlier in the consultation (paragraphs 28 to 31), we propose that:

- the revised underpin be extended to provide underpin protection to all qualifying members for service from 1st April 2014 up to and including 31st March 2022, except where a member's underpin date is sooner.
- from 1<sup>st</sup> April 2022, all LGPS membership accrues on a career average basis, with no underpin,
- but to ensure that there is an equivalent level of protection between older and younger members, the comparison of 2008 Scheme and 2014 Scheme benefits would take place at a qualifying member's underpin date, even if the underpin period ends sooner.

## The revised underpin – application

65. This section describes how the revised underpin is intended to apply to qualifying members at different stages of their membership of the scheme, and at different life events.

### Whilst in active membership

66. Whilst a qualifying member is in active service below their 2008 Scheme NPA, they will remain a member of the 2014 Scheme. For the period up to 31<sup>st</sup> March 2022, active qualifying members will accrue underpin protection. From 1<sup>st</sup> April 2022, accrual will be on a career average basis alone, but active qualifying members will retain a final salary link in relation to their underpin protection. Each year, a qualifying member's annual benefit statement will include an estimate of how the underpin would have applied to them if they had left the scheme at the end of the scheme year (i.e. as if their underpin date had been 31<sup>st</sup> March in that year). In these estimates, no account would be taken of actuarial adjustments relating to a member's age.

67. If a qualifying member remains in active service at their 2008 Scheme NPA (normally 65), their underpin date will be triggered in relation to their relevant scheme membership, meaning a comparison of their 2008 Scheme and 2014 Scheme pension (relating to the period from 1<sup>st</sup> April 2014 up to 31<sup>st</sup> March 2022, or their 2008 Scheme NPA if earlier) would be undertaken. This calculation would be based on the member's final pay as at their 2008 Scheme NPA (taking into account appropriate lookback provisions where appropriate). The member would be informed of the results of this comparison, but also informed that a check at their underpin crystallisation date would be undertaken at the point they take their benefits to ensure they are getting the higher benefit. Final salary increases or reductions beyond the member's 2008 Scheme NPA would not impact on the member's underpin protection.

### Concurrent employments

68. Underpin protection may apply to qualifying members who hold two or more active memberships of the scheme at the same time ('concurrent employments'). Under our proposals, underpin protection would be linked to specific scheme memberships, with members who have 'relevant scheme membership' having underpin protection on that membership. Relevant scheme membership applies where:

- a member was an active member on 31<sup>st</sup> March 2012,
- a member has been an active member of the 2014 Scheme, and
- they did not have a disqualifying break in service.

69. Relevant scheme membership would apply in the normal way where a qualifying member has concurrent employments – for example, if a member has two posts and meets the criteria in one but not the other, they would have underpin protection in the former post, but not the latter. Where a qualifying member leaves a concurrent post in which they had relevant scheme membership before reaching their 2008 Scheme NPA their underpin date would apply in relation to that employment. If they were to then aggregate that membership with their ongoing post, the member would have a further

underpin date at the earlier of the date they leave that post or the date they reach their 2008 Scheme NPA.<sup>29</sup>

### **At date of leaving (without taking scheme benefits)**

70. Where an active qualifying member leaves the LGPS before their 2008 Scheme NPA with a deferred entitlement to benefits, their underpin date would apply at their date of leaving. A provisional underpin comparison would be undertaken for the period up to 31st March 2022, or to the member's date of leaving if earlier. The member would be informed of the results of this comparison, but also informed that a check at their underpin crystallisation date would be undertaken at the point they take their benefits to ensure they are getting the higher benefit.

### **Whilst a deferred member**

71. For qualifying members who have had an underpin date after leaving active membership of the scheme with a deferred benefit, annual benefit statements sent to the member would include details of the provisional calculations undertaken at their underpin date. The results of these calculations would be adjusted to reflect cost of living changes between the member's underpin date and the date of their annual benefit statement.

### **Re-joiners**

72. Where a qualifying member who has had an underpin date in respect of a relevant scheme membership re-joins the scheme without a disqualifying break in service and aggregates their previous scheme membership with their active pension account<sup>30</sup>, they will retain continuing underpin protection for any service up to 31<sup>st</sup> March 2022. For service from April 2022 onwards, the member will retain a continuing final salary link in relation to their underpin protection (as well as in respect of their pre-2014 final salary membership). A further underpin date will occur at the date the member leaves active service or the date they reach their 2008 Scheme NPA.

### **Age retirement**

73. When a qualifying member takes voluntary payment<sup>31</sup> of their benefits in a relevant scheme membership at any age between 55 and 75, their underpin crystallisation date will apply. This means that the final comparison of their benefits will be undertaken to determine whether the 2014 Scheme or 2008 Scheme benefits would be better. For qualifying members who retire from active status and do so before their 2008 Scheme NPA, the member's underpin date will take place as at their date of leaving<sup>32</sup>. The underpin crystallisation date will take place upon their pension coming into payment.

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<sup>29</sup> Under regulations 22(6) or (7) of the 2013 Regulations

<sup>30</sup> Under regulation 22 of the 2013 Regulations, all scheme members must have a pension account. Unless aggregated, members have multiple pension accounts for multiple periods of scheme membership.

<sup>31</sup> Non-voluntary payment of benefits following redundancy and business efficiency are covered in paragraph 100.

<sup>32</sup> As described in paragraph 67, where a qualifying member is in active service at their 2008 Scheme NPA, this would be their underpin date.

74. In the underpin crystallisation date calculation, the scheme administrator will take the provisional calculations from a qualifying member's underpin date and update these to take into account the effects of cost of living changes since the member's underpin date, as well as the impact of early/ late retirement factors. Where the final values show that the member would have been better off under the 2008 Scheme, an addition will be made to the member's 2014 pension account. The member's total pension in that relevant scheme membership for the period from 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2022 would also be payable without any further actuarial adjustment relating to the member's age.

### **Ill-health retirement**

75. For most qualifying members retiring on ill-health grounds, their date of leaving will be their underpin date<sup>33</sup>. As applies under the existing underpin provisions, the underpin calculation at a qualifying member's underpin date will take into account any enhancements that they may be due where they are receiving 'tier 1'<sup>34</sup> or 'tier 2'<sup>35</sup> benefits under regulation 39 of the 2013 Regulations, and compare these against the relevant enhancements that would have applied under the 2008 Scheme. This comparison of enhancements would apply up to the earlier of a qualifying member's 2008 Scheme NPA and 31<sup>st</sup> March 2022.

76. A qualifying member's ill-health retirement date will be their underpin crystallisation date, in all cases. This calculation will take into account cost of living adjustments between the member's underpin date and their underpin crystallisation date for members retiring from deferred or deferred pensioner status. No account will be taken of actuarial reductions relating to their age as these do not apply in relation to ill-health retirements, but where the qualifying member is over their 2008 Scheme or 2014 Scheme NPA, the impact of actuarial increases will be considered.

77. Whilst in most cases a member can only have one underpin crystallisation date, an exception applies in relation to members who have retired with 'tier 3'<sup>36</sup> benefits. As tier 3 pensions are temporary, a qualifying member would typically have an underpin crystallisation date at the point they begin receipt of their temporary pension and a subsequent one at the point they receive payment of their suspended pension from the scheme or the underpin otherwise crystallises (from deferred pensioner status). Whilst the

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<sup>33</sup> With the exception of deferred or deferred pensioner members taking ill-health retirement under regulation 38 of the 2013 Regulations, and members who have previously reached their 2008 Scheme normal retirement age. Deferred pensioner members are members who were previously in receipt of a temporary tier 3 ill-health pension which has since ceased, and the member has not yet taken their main scheme benefits.

<sup>34</sup> Subject to other criteria that apply, tier 1 benefits apply to members retiring on ill-health grounds who are unlikely to be able to undertake gainful employment before their NPA (regulation 35(5)). Members receiving tier 1 benefits receive an adjustment to their pension equalling the full benefits they would have accrued between date of leaving and their 2014 Scheme NPA.

<sup>35</sup> Subject to other criteria that apply, tier 2 benefits apply to members retiring on ill-health grounds who are unlikely to be able to undertake gainful employment within three years of leaving the employment, but who are likely to be able to undertake gainful employment before reaching their NPA (regulation 35(6)). Members receiving tier 2 benefits receive an adjustment to their pension equalling 25% of the benefits they would have accrued between date of leaving and their 2014 Scheme NPA.

<sup>36</sup> Subject to other criteria that apply, tier 3 benefits apply to members who are likely to be capable of undertaking gainful employment within three years of their date of leaving (regulation 35(7)). Members receiving tier 3 benefits receive an unadjusted pension for a maximum of three years.

former calculation would not take into account actuarial reductions that may apply, the latter calculation would.

## **Death benefits**

78. As noted earlier, under existing scheme regulations, it is sometimes unclear how scheme death benefits interact with the underpin. Our policy intent is set out in this section, and we have aimed to make these points clearer in the draft regulations. These clarifications are essential to ensuring that the underpin works effectively and consistently.

79. **Deaths in service** - For a qualifying member in active service, their date of death will be both their underpin date and their underpin crystallisation date. It is proposed that the underpin comparison would take into account the enhancements that apply under the 2008 and 2014 Scheme regulations in relation to deaths in service. This comparison of enhancements would apply up to the earlier of the qualifying member's 2008 Scheme NPA and 31<sup>st</sup> March 2022. This would be a new addition to the underpin regulations, and would be consistent with the approach taken in relation to ill-health retirements (outlined above in paragraph 75).

80. No adjustment relating to the underpin would apply to a qualifying member's death grant, as death grants for active members are based on a member's pay, not their pension.

81. Where survivor benefits are payable following a death in service of a qualifying member, the underpin comparison would be based on the provisional calculations and would not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition would apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

82. **Deaths from deferred status** - Where a qualifying member dies from deferred status, their underpin date will have already taken place (on the date the member left active service, or on their 2008 Scheme NPA, if earlier). The day of the member's death would be their underpin crystallisation date.

83. Where survivor benefits are payable following a death from deferred status, the underpin comparison would be based on the provisional calculations and would not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition would apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

84. Any addition arising from the provisional calculations undertaken at a member's underpin date will also apply in the calculation of the death grant. For deferred members, a death grant applies at 5 times the annual rate of pension, without actuarial adjustment relating to the age of the member.

85. **Deaths from pensioner status** – Where a qualifying member dies from pensioner status, the underpin date and the underpin crystallisation date will already have taken place.

86. Where survivor benefits are payable following the death of a pensioner, the underpin comparison will be based on the provisional calculations undertaken at a qualifying member's underpin date and will not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition will apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

87. Any addition arising from the provisional underpin calculation will also apply in the calculation of the death grant, where applicable. For pensioner members, a death grant applies at 10 times the annual rate of pension, reduced by the actual amount of pension the member received prior to their death and by any lump sum commutation.

## **Public Sector Transfer Club transfers**

88. The LGPS is a member of the Public Sector Transfer Club<sup>37</sup>. The Club is an arrangement that facilitates the mobility of employment within the public sector by, for example, enabling employees to avoid the reduction in the value of their accrued pension that could otherwise occur as a result of changing employment. Final salary pension transferees are awarded a service credit that maintains the member's final salary link for the pension accrued in their previous scheme. CARE transferees are awarded a pension credit that continues the rate of in-service revaluation that was provided in the member's previous scheme. The intention of the Club is that a member should not lose out as a result of changing employment within the public sector. Equally, the member should not receive benefits that are higher in value than if they had not changed employment.

89. Separately, the Government is consulting<sup>38</sup> on proposals to remove the unlawful discrimination from the other main public service pension schemes. That consultation includes a section seeking views on how transfers under the Public Sector Transfer Club may work in relation to the remedy proposals outlined in that consultation. It sets out that one option would be for a member to make a choice between career average and final salary benefits at the date of transfer, so that only one set of scheme benefits for the remedy period needs to be considered for the transferred service.

90. The consultation also notes that considerations in the LGPS may be different, given the different nature of transitional protection in the LGPS and that we would consult on more detailed proposals in relation to Club transfers between the LGPS and the other public service pension schemes.

91. One approach, which would be consistent with the option outlined in the wider consultation, would be for the same principle to apply. This would mean the following:

- **For Club transfers of protected service (accrued between April 2015 and March 2022) into the LGPS** - the receiving LGPS fund would give the member the option of deciding whether they wanted to use the transfer to buy final salary

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<sup>37</sup> <https://www.civilservicepensionscheme.org.uk/members/public-sector-transfer-club/>

<sup>38</sup> <https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes>

membership or career average pension in relation to the transferred service. Quotations would be provided to help members make an informed choice.

- **For Club transfers of protected service (accrued between April 2014 and March 2022) out of the LGPS** – the receiving scheme administrator would give the member the option of deciding whether they wanted to use the transfer to buy final salary membership or career average pension in relation to the transferred service (which in the LGPS would have provided them with underpin protection). Quotations would be provided to help members make an informed choice.

92. It should be noted that, in certain situations, a transferring member might be at an advantage if the transitional protection could continue in their new scheme (for example, if members transferring into the LGPS were to obtain underpin protection for protected service they transfer in, or LGPS members transferring out were to obtain a choice in their new schemes). However, such an approach would likely lead to significant administrative complexity across the public sector.

93. We propose that, consistent with existing LGPS regulations<sup>39</sup> that, where a member with final salary membership in another public service pension scheme transfers that membership into the LGPS, and they would have met the qualifying criteria for underpin protection in the LGPS had they been a member of the scheme, they would be granted underpin protection for their LGPS membership up to 31<sup>st</sup> March 2022. This would apply even if the initial transfer into the LGPS was not a Club transfer.

94. We welcome views from respondents on the options set out here. The final approach in relation to transfers within the Public Sector Transfer Club will be considered across Government, taking into account the responses to this consultation along with those to the wider consultation.

## **Non-Club transfers**

95. Where a qualifying member transfers relevant scheme membership and the transfer is not a 'Club' transfer<sup>40</sup>, a different approach is proposed. The date of transfer would be their underpin crystallisation date. In the draft regulations we propose the detailed requirements in relation to such cases will be contained in actuarial guidance issued by the Secretary of State. We propose that the actuarial guidance we issue will require the following approach:

- 1) Calculate Cash Equivalent Transfer Values (CETVs) of the following:
  - a) the member's accrued rights,
  - b) the member's 'provisional assumed benefits' (see **annex C**), and
  - c) the member's 'provisional underpin amount' (see **annex C**).

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<sup>39</sup> Regulation 9(1) and (2) of the 2014 Regulations

<sup>40</sup> Either because it is not a transfer to a pension scheme in the Public Sector Transfer Club, or because it does not qualify as a Club transfer.

2) Where c) is greater than b), add the difference between the two amounts to a) and that is the total CETV.

3) Where c) is not greater than b), just pay the CETV based on the member's accrued rights (i.e. the CETV calculated at a)).

96. This approach would be consistent with the general approach taken to calculating pension benefits under the underpin, and should achieve a similar outcome.

97. Where a member with underpin protection has transferred in pension rights from another scheme that is not a public service pension scheme, the value of the transfer would not be taken into account for the purposes of the member's underpin calculations. This is the same as applies in relation to transfers under the existing underpin regulations.

### **Other ways of taking benefits**

98. **Flexible retirement** – Where a qualifying member makes an election to reduce their working hours or grade in an employment, with their employer's consent, that would be their underpin date, even though they remain in active employment after this date. As applies under the existing underpin provisions, no further underpin protection would apply after a qualifying member's date of flexible retirement. The underpin crystallisation date calculation, also undertaken at the point of a member's flexible retirement, would take into account the impacts of early and late retirement factors to determine which scheme benefit is better for the individual.

99. Where a qualifying member takes 'partial' flexible retirement, i.e. they do not take all the benefits they accrued prior to their flexible retirement date straight away, there is a question about the appropriate treatment of the underpin. We propose that, in partial flexible retirement situations, where there is an addition to the member's pension arising from the underpin (i.e. because the 2008 Scheme benefit is higher), the amount of the addition given to the member at that point in time should be proportionate to the amount of the 2014 Scheme pension they are choosing to receive. For example, if a member is only receiving 20% of their 2014 Scheme pension upon flexibly retiring, they would only receive 20% of the underpin addition. The remainder would be payable at the point the member takes the rest of their benefits.

100. **Redundancy**<sup>41</sup> – Redundancy below a qualifying member's 2008 Scheme NPA would trigger their underpin date. For members aged 55 or over, who have an immediate entitlement to their pension at point of redundancy, the date their redundancy pension commences would also be their underpin crystallisation date. As actuarial reductions do not apply in this situation, no account should be taken of these in the final underpin comparison. However, actuarial increases, where the member is made redundant after their 2008 Scheme or 2014 Scheme NPA, should be considered in the usual way.

101. **Trivial commutation**<sup>42</sup> – Under regulation 34 of the 2013 Regulations, members with small total pension rights can extinguish their future right to a pension from the scheme

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<sup>41</sup> This paragraph also covers members leaving active membership of the LGPS on grounds of business efficiency.

<sup>42</sup> This paragraph also covers members taking benefits via any of the other means referred to in regulation 34 of the 2013 Regulations. These payments are made at the discretion of administering authorities.



and receive a lump sum instead ('trivial commutation'). Under our proposals, qualifying members trivially commuting their pension will already have had their underpin date, as at their date of leaving the LGPS or reaching their 2008 Scheme NPA. If a qualifying member has not yet taken their pension, the date they trivially commute their benefits would be their underpin crystallisation date and the draft regulations propose the detailed requirements in relation to such cases will be contained in actuarial guidance issued by the Secretary of State. This is consistent with the general approach set out in the 2013 Regulations<sup>43</sup>. We propose that the actuarial guidance we issue will require the following approach:

- 1) Calculate the trivial commutation sum due of the following:
  - a) the member's total accrued rights,
  - b) the member's 'provisional assumed benefits' (see **annex C**), and
  - c) the member's 'provisional underpin amount' (see **annex C**).
- 2) Where c) is greater than b), add the difference between the two amounts to a) and that is the total sum due.
- 3) Where c) is not greater than b), just pay the trivial commutation sum based on the member's accrued rights (i.e. the sum calculated at a)).

102. This approach would be consistent with the general approach taken to calculating pension benefits under the underpin, and should achieve a similar outcome. Where a qualifying member who trivially commutes their benefits has already taken their pension from the LGPS (and had an underpin crystallisation date in doing so), there would be no further underpin calculations due at the point of the trivial commutation.

**Question 14 – Do you have any comments regarding the proposed approaches outlined above?**

**Question 15 – Do you consider there to be any notable omissions in our proposals on the changes to the underpin?**

## Supplementary matters

### Annual benefit statements

103. Pension schemes are vitally important workplace benefits. For many people contributing to a pension scheme, the annual benefit statement (ABS) is the main way that they receive updates on the value of their pension and when they will be able to receive it. Whilst it is true that information presented on an ABS about the underpin cannot provide certainty to a qualifying member on their underpin protection (in most cases, there will not be certainty until a member's underpin crystallisation date), we believe it is important that estimates are provided on member ABSs if scheme regulations are amended in the

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<sup>43</sup> Regulation 34(2) of the 2013 Regulations requires that payments of the description contained in regulation 34(1) are to be calculated in accordance with actuarial guidance issued by the Secretary of State.

manner outlined in this paper. Appropriate wording would need to be considered so that members have the information needed to understand how the underpin works and that the figures included in their statement are provisional, and may change. We would plan to ask the Scheme Advisory Board to lead on agreeing standardised wording that LGPS funds throughout England and Wales can include in ABSs regarding underpin protection.

104. Our draft regulations propose the following approach for members who meet the underpin qualifying criteria and have relevant scheme membership:

- That where a member is in active service below their 2008 Scheme NPA, their ABS should estimate the value of the underpin to the individual as if the end of the Scheme year<sup>44</sup> was their underpin date – including the provisional assumed benefits, the provisional underpin amount and any provisional guarantee amount.
- That where a member remains in active service beyond their 2008 Scheme NPA, their ABS should include the provisional estimates from the member's underpin date, as updated to reflect cost of living changes to the end of the Scheme year.
- For deferred and deferred pensioner members<sup>45</sup>, their ABS should include the provisional estimates from the member's underpin date, as updated to reflect cost of living changes to the end of the Scheme year.

**Question 16 – Do you agree that annual benefit statements should include information about a qualifying member's underpin protection?**

**Question 17 – Do you have any comments regarding how the underpin should be presented on annual benefit statements?**

## **Annual allowance**

105. The annual allowance is the maximum amount of tax-relieved pension savings that can be accrued by an individual in a year. The standard annual allowance is currently £40,000, but for those on the highest incomes, it tapers down to a minimum level of £10,000 (from April 2016 to March 2020) and to £4,000 (from April 2020). For defined benefit pension schemes like the LGPS, liability for tax charges above the annual allowance is calculated using the value of pension accrued in a particular year. Where an individual's pension accrual in a single year exceeds the annual allowance, then a tax charge may be due on the amount accrued above the member's annual allowance<sup>46</sup> to claw back the excess tax relief.

106. Whilst we would not expect a significant number of qualifying members to experience any change to their tax liability as a result of the proposals in this consultation document, it

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<sup>44</sup> Under Schedule 1 of the 2013 Regulations, a period of one year beginning with 1<sup>st</sup> April and ending with 31<sup>st</sup> March.

<sup>45</sup> Deferred pensioner members are members who were previously in receipt of a temporary tier 3 ill-health pension which has since ceased, and the member has not yet taken their main scheme benefits.

<sup>46</sup> However, 'carry forward' provisions allow members to carry forward unused annual allowance for the previous three years.

is important that underpin protection is considered for the purposes of determining a qualifying member's annual allowance.

107. LGPS regulations do not contain detailed provisions regarding the application of pensions tax to scheme benefits. Scheme administrators must follow the pensions tax framework as set out in the Finance Act 2004 and secondary legislation, and as explained in HMRC's Pensions Tax Manual<sup>47</sup>. Consistent with our approach generally, we do not plan to include in scheme regulations specific details regarding the tax treatment of the revised underpin.

108. We understand that, in accordance with guidance provided by the Local Government Association (LGA)<sup>48</sup>, LGPS administrators have generally been taking the following approach in relation to the current underpin and the annual allowance:

- Whilst a protected member is in active service and their underpin date has not yet occurred, no account has been taken of a member's underpin protection for the purposes of determining a member's pension input amount in a given pension input period. This reflects that, under existing scheme regulations, a member may only receive an addition to their pension at the point of their underpin date.
- In the year of a protected member's underpin date, any addition in the member's pension arising from the comparison undertaken at the member's underpin date would be considered for the purposes of determining a member's pension input amount in that pension input period.

109. Whilst interpretation and application of the requirements of the Finance Act 2004 is a matter for individual administrators to consider, we believe that this approach is correct and would remain so if our proposals were to be implemented in scheme regulations. However, a change will be needed to reflect that, under our proposals, the point where an addition may arise from the underpin would be different. As described in paragraphs 61 and 62, our proposal is that the underpin moves to a 'two stage process'. Under this, a member's underpin protection can only result in a change to their pension entitlement at their 'underpin crystallisation date' and under our proposals it would be in this pension input period that the underpin should first be given consideration for the purposes of the annual allowance. As there would be no change to a member's pension entitlement at the point of a member's underpin date, the underpin should not be given consideration for annual allowance purposes in that pension input period<sup>49</sup>.

110. However, we recognise that there may be circumstances where this approach means that a qualifying member has a higher pension input amount in the year of their underpin crystallisation date than an approach where the potential value of the underpin is considered on a year-by-year basis whilst a qualifying member remains in active membership. This may particularly be the case for qualifying members who have a relatively low career average pension for the years from 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2022, but a relatively high final salary pension over the same period. This may occur where a

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<sup>47</sup> <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual>

<sup>48</sup> 'The Underpin' technical guide, latest version v1.8 (dated 18/07/2018), <http://lgpsregs.org/resources/guidesetc.php>

<sup>49</sup> Except where the member's underpin crystallisation date occurs in the same pension input period.

qualifying member is at an early stage of their career now, but goes on to be a high-earner in the future. We would appreciate views from stakeholders on the potential likelihood of this issue arising, the scale of the issue and how any impacts might be mitigated, if appropriate.

**Question 18 – Do you have any comments on the potential issue identified in paragraph 110?**

## **Public sector equality duty**

111. The Ministry of Housing, Communities and Local Government has analysed the proposals set out in this consultation document (MHCLG) to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010. This requires the department to pay due regard to the need to:

- 1) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act
- 2) advance equality of opportunity between people who share a protected characteristic and those who do not
- 3) foster good relations between people who share a protected characteristic and those who do not.

## **Data**

112. In undertaking our assessment of the equalities impacts of our proposals, we have drawn upon analysis provided to us by GAD. The analysis particularly looks at the protected characteristics of age and sex and is based on membership data supplied to GAD by LGPS administrators as at 31<sup>st</sup> March 2019. The following points should be borne in mind when considering the analysis:

- GAD's analysis has principally considered those who would benefit from the proposals outlined in this consultation. Members who already have underpin protection under existing provisions (being those aged 62 and older on 31<sup>st</sup> March 2019, who were aged at least 55 on 1<sup>st</sup> April 2012) have not been considered directly.
- GAD's analysis is based on active membership records totalling 1.68mn. The analysis has been conducted on a per-member basis, meaning additional records where members have more than one active employment have been removed.
- The proportion of the qualifying membership which is eventually likely to be better off as a result of underpin protection is heavily influenced by the rate of future pay growth in the LGPS. Consistent with the assumption used for the 2016 valuations of public service pension schemes, the long-term annual future pay growth assumption used is CPI + 2.2%.
- The analysis is based on the LGPS's active membership as at 31<sup>st</sup> March 2019. Under our proposals, the proposed changes to the underpin would be backdated to 1<sup>st</sup> April 2014. We would therefore expect that a number of additional members not

included in the analysis would benefit from our proposals. However, we do not anticipate this limitation would significantly change the results of the analysis.

- The analysis is based on an “average” member at each particular age. Allowing for variations in individual members’ future service or salary progression could produce different figures.

113. Limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the Labour Force Survey (LFS) (Q1 2020)<sup>50</sup> and the Annual Population Survey (APS) (2019)<sup>51</sup> in looking at the potential impacts of the following characteristics.

## Age

114. The proposals outlined here are intended to remove age discrimination, which had been found to be unlawful in the firefighters’ and judicial pension schemes, from the LGPS rules governing the underpin. We consider that the changes proposed will significantly reduce differential impacts in how the underpin applies based on a member’s age, by removing the age-related qualifying criteria found to be unlawful by the Courts.

115. Based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019, we anticipate that some differences in how the revised underpin would apply to members of different age groups would remain. These are described below, along with our assessment of these differences.

116. **Qualification for the underpin** – GAD’s analysis shows that older active members on 31st March 2019 would be more likely to qualify for the revised underpin than younger active members. This is principally because of our proposal that the 31st March 2012 qualifying date for underpin protection is retained. The proportion of members active in the scheme as at 31st March 2019 who had been members of the scheme on 31st March 2012 is lower for younger members, as experience shows they have a higher withdrawal rate from active scheme membership. We consider that members joining the LGPS after 31st March 2012 do not need to be provided with underpin protection. Members joining the LGPS after 31st March 2012 fall into two groups:

a) members who joined after 1st April 2014 when the LGPS had already reformed to a career average structure, and

b) members who joined between 1st April 2012 and 31st March 2014, who joined the LGPS when it was still a final salary scheme, but when a well-publicised reform process was already underway.

117. In relation to both groups, it is the Government’s view that providing them underpin protection would not be appropriate. Transitional protection, as applied across public

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<https://www.ons.gov.uk/surveys/informationforhouseholdsandindividuals/householdandindividualsurveys/labourforcesurvey>

<sup>51</sup>

[https://www.nomisweb.co.uk/articles/1167.aspx#:~:text=The%20Annual%20Population%20Survey%20\(APS,regional%20\(local%20authority\)%20areas.](https://www.nomisweb.co.uk/articles/1167.aspx#:~:text=The%20Annual%20Population%20Survey%20(APS,regional%20(local%20authority)%20areas.)

service pension schemes, was always designed to help members with the transition from the old scheme designs to the new (in the LGPS, mainly in relation to the move from a final salary to a career average structure). Members who joined after 31<sup>st</sup> March 2012 will have joined the LGPS when either it had already transitioned to the career average structure, or when it was well publicised that the LGPS benefits were reforming.

**118. Members who benefit from the underpin** – GAD’s analysis shows that active members between the ages of 41 and 55 would be more likely to benefit from the revised underpin (i.e. where the calculated final salary benefit is higher than the calculated career average benefit) than both their younger and older colleagues. This reflects previous experience and future expectation that:

- this group are more likely than older colleagues to experience the pay progression that would make the final salary benefit higher over the underpin period (bearing in mind that the career average accrual rate (1/49ths) is better than the final salary accrual rate (1/60ths) so above inflation pay increases are needed for the underpin to lead to an increase in pension), and
- this group are more likely than younger colleagues to remain in active membership until they receive the pay progression necessary for the underpin to result in an addition to their pension. Younger members are estimated to have a higher voluntary withdrawal rate than older members, and so would be less likely to remain in the LGPS until such time as they have the pay increases for the final salary benefit to be higher.

119. These differential impacts reflect the fact that final salary schemes typically benefit members with particular career paths (for example, they usually favour high-earners with long service). The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

## **Sex**

120. In relation to sex, GAD’s analysis shows that broadly the proportion of men and women who would qualify for the revised underpin protection and benefit from that protection matches the profile of the scheme. As at 31<sup>st</sup> March 2019:

- 74% of scheme members were female, and 26% male
- 73% of the scheme members who were estimated to qualify for the revised underpin protection were female, and 27% male
- 73% of the scheme members who were estimated to benefit from the revised underpin were female, and 27% male

121. Proportionally, GAD’s assessment is that men would be marginally more likely to qualify for the revised underpin and to benefit to a greater extent from underpin protection than women. This reflects the fact that, in line with previous scheme experience, the average male LGPS member would be expected to have higher salary progression than the average woman and that women are generally expected to have higher voluntary withdrawal rates than men. Members with longer scheme membership and with higher

salary progression would be more likely to receive an addition to their pension through the underpin (i.e. where the final salary benefit is higher).

122. These small differential impacts also demonstrate some of the effects that can arise under a final salary design. The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

### **Other protected characteristics**

123. As noted in paragraph 113, limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the LFS (Q1 2020) and the APS (2019) in looking at these characteristics. The LFS breaks down results to public sector level, which we have used as a proxy for LGPS membership for ethnicity, disability and marital status. For religion, the APS has been used as a proxy for the public service pension schemes as it also includes a public sector breakdown.

124. Whilst these data sets show some differences in the demographic make-up of the UK population generally and the public sector workforce, we do not consider that the changes to underpin protection proposed in the consultation will result in any differential impact to LGPS members with the following protected characteristics: disability, ethnicity, religion or belief, pregnancy and maternity, sexual orientation and marriage/civil partnership.

125. Data on sexual orientation, gender reassignment, pregnancy and maternity is not available. However, we expect there to be no differential impacts in relation to these groups as they won't be explicitly affected by any changes to transitional arrangements.

### **Next steps**

126. Whilst we have detailed data on the protected characteristics of age and sex in relation to the LGPS membership, we are aware that our analysis of the impacts on other protected characteristics may be limited as it has not been based on local government specific data. We welcome suggestions from stakeholders of other data sets that may be available that may help us better understand the impacts on the LGPS membership more specifically.

127. We welcome views from stakeholders on our analysis, which is set out in more detail in the equalities impact assessment published alongside this consultation. These views will be considered in determining how to proceed following the consultation exercise. The potential equalities impacts of our proposals will be kept under review. A further equalities impact assessment will be undertaken following the consultation at the appropriate juncture.

**Question 19 – Do the proposals contained in this consultation adequately address the discrimination found in the ‘McCloud’ and ‘Sargeant’ cases?**

**Question 20 – Do you agree with our equalities impact assessment?**

**Question 21 - Are you aware of additional data sets that would help assess the potential impacts of the proposed changes on the LGPS membership, in particular for the protected characteristics not covered by the GAD analysis (age and sex)?**

**Question 22 – Are there other comments or observations on equalities impacts you would wish to make?**



# Implementation and impacts

128. Following the closure of the consultation, we will consider the consultation responses received in detail to determine the best approach for removing the unlawful age discrimination from LGPS regulations.

129. The draft regulations at **annex B** have been prepared based on existing powers under the Public Service Pensions Act 2013. However, as noted in the wider Government consultation<sup>52</sup> on removing the unlawful age discrimination from public service pension schemes, the Government intends to bring forward new primary legislation regarding public service pensions. When proposals for removing the unlawful discrimination are finalised, further consideration will be given to the appropriate powers for the changes, based on the legislation in force at the time.

130. We recognise that in the period between now and scheme regulations being amended, some members of the scheme who would be due to benefit from the changes outlined in this paper will crystallise scheme benefits. This will include voluntary age retirements, as well as ill-health retirements, redundancies and transfers. There will also be dependants of those qualifying members who sadly die before changes are implemented. In respect of all such cases, we would expect the retrospective application of our proposed amending regulations to ensure that, overall, members and their dependents would get the full benefit of the revised underpin.

## Communications

131. As noted in paragraphs 103 and 104, member communications in relation to the proposals outlined here will be vitally important to ensure members understand what underpin protection is and how it may or may not apply to them. This is particularly important due to the complexities of the underpin. The two-stage process we describe in paragraphs 61 and 62 is designed to protect members and to provide clarity, but it is important its purpose is well explained, so that qualifying members understand that they may have an addition to their pension arising from the underpin, even if there was not an addition at their underpin date. Equally, qualifying members should be aware that the benefits payable from the 2014 Scheme are very good, and, for many, underpin protection will not result in an increase to their pension entitlement.

132. Communications aimed at scheme employers will also be important so that they understand the proposed changes, particularly bearing in mind the number and variety of LGPS employers (just over 18,000 in 2018/19). The changes outlined in this paper would lead to an upward pressure on scheme liabilities and, potentially, to future increases in employer contributions. It is vital that employers understand the potential changes and

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<sup>52</sup> <https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes>

how they may impact their funding position. More generally, employers would have a practical role in providing the data necessary for scheme administrators to deliver the changes outlined in this document, and should understand how these changes may impact upon them.

133. Achieving good communications, and deciding on the appropriate medium for those communications, will require input from stakeholders across the LGPS, including administering authorities, employers and trade unions. We are aware that the Scheme Advisory Board has already commenced discussions with the sector on communications and we are strongly supportive of this continuing. We will continue working with the Scheme Advisory Board on this in the coming months.

**Question 23 – What principles should be adopted to help members and employers understand the implications of the proposals outlined in this paper?**

## Administration impacts

134. We are conscious that the proposals outlined in this consultation paper would require significant changes to administration practices and systems. Amongst other matters, local administrators would need to consider the appropriate prioritisation of cases after amendments to regulations are made. Recognising that the LGPS is a single scheme, albeit locally administered, we are supportive of there being consistency across the scheme in respect of prioritisation and hope to work with the sector and the Scheme Advisory Board to agree a standard approach.

135. Prioritisation decisions will be influenced by the fact that the revised underpin would have retrospective effect to April 2014, meaning that some members would already be in receipt of pensions that would need to be re-calculated, and retrospectively applied, in line with the new regulations.

136. A major challenge of implementing the changes proposed would apply in respect of obtaining additional data from employers for members who are newly benefitting from underpin protection – estimated to be around 1.2 million individuals. Under the 2014 Scheme, certain member data which was required for administering the 2008 Scheme (such as details of members' working hours and breaks in service) are not required for calculating member benefits. To administer the revised underpin, administrators would need to obtain this data for qualifying members for the period back to April 2014. This would be a highly significant exercise for the scheme's 87 administering authorities and its 18,000 employers. Particular challenges are likely to arise where employers have changed their payroll provider, and the data isn't stored in current systems.

**Question 24 – Do you have any comments to make on the administrative impacts of the proposals outlined in this paper?**

**Question 25 – What principles should be adopted in determining how to prioritise cases?**

**Question 26 – Are there material ways in which the proposals could be simplified to ease the impacts on employers, software systems and scheme administrators?**

137. We are grateful to the Scheme Advisory Board for their work on this project so far, in particular for their input on the remedy proposals outlined in this paper and for their establishment of working groups to consider some of the complex issues associated with this project.

138. We will continue working closely with the Scheme Advisory Board after the closure of the consultation as the sector prepares for the potential changes to scheme regulations. In particular, we intend to ask that the Scheme Advisory Board consider what guidance may be necessary to help administrators implement the proposed changes, and we are grateful for respondents' views on this.

139. Guidance would help support a consistent approach across the LGPS which would be desirable, in particular on matters like prioritisation. It would also potentially help on the complex issues connected with the fact that scheme employers would need to provide administrators with membership data going back to April 2014.

**Question 27 – What issues should be covered in administrative guidance issued by the Scheme Advisory Board, in particular regarding the potential additional data requirements that would apply to employers?**

**Question 28 – On what matters should there be a consistent approach to implementation of the changes proposed?**

## Costs

140. The LGPS is a locally administered, funded scheme with three-yearly funding valuations to determine employer contribution rates. The next funding valuation is due on 31<sup>st</sup> March 2022<sup>53</sup>. Employer contribution rates are, in most cases, determined on an individual employer basis, and take into account a number of factors, some related to the individual employer (such as membership demographics) and some related to the fund more broadly (such as the performance of fund investments since the previous valuation).

141. As a result of this backdrop, it is not possible to say how these changes would impact employer contribution rates at future valuations. However, the proposals in this paper can only lead to improvements in scheme benefits for qualifying members and, by necessity, there will be an upward pressure on liabilities. Because a variety of factors influence LGPS employer contribution rates, this upward pressure does not necessarily mean any particular employer's contributions will go up as a result of these changes, and administering authorities are required to smooth employer contributions as far as possible over the long term. Where any fund or employer would like to understand how these proposals may affect their own position, they should speak to their fund actuary. As scheme liabilities predominantly sit with local authorities and other public bodies, which are

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<sup>53</sup> Under regulation 64 of the 2013 Regulations. In 2019, we consulted on potential changes to the funding valuation cycle - <https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk>. The Government has not yet responded to the proposal on the LGPS valuation cycle.

largely taxpayer funded, any employer contribution increases that do arise would need to be met, for the most part, by the taxpayer.

142. At a scheme level, costing estimates have been provided by the scheme actuary<sup>54</sup>, the Government Actuary's Department, based on data provided by LGPS funds for the 2016 valuation. Assuming future member experience replicates the 2016 scheme valuation assumptions<sup>55</sup> the future cost to LGPS employers could be around £2.5bn in the coming decades. This is between 4% and 5% of the expected cost of benefits earned over the proposed underpin period, April 2014 to March 2022. However, if, for example, long-term real earnings growth were around a third lower than assumed for the 2016 valuation, we estimate the cost would roughly halve.

143. The costs are sensitive to both individual member experience and future pay. Predicting whether the underpin becomes valuable in the future depends heavily on assumptions on long-term future pay growth trends. In this estimate, we have used the 2016 valuation assumption that annual long-term pay growth is CPI + 2.2%. However, if long-term pay growth in the LGPS is lower than this, the costs may be lower (and vice versa).

144. The Government cost control mechanism was paused in February 2019 given the uncertainty arising from the McCloud judgment. The Government has made a separate announcement on the cost control mechanism<sup>56</sup>. In addition to the main Government cost control mechanism for the LGPS, the LGPS has a separate cost control process run by the Scheme Advisory Board<sup>57</sup> which was also paused as a result of the uncertainty arising. We expect the Scheme Advisory Board will also take the decision to unpause their process following the Government's announcement.

**Question 29 – Do you have any comments regarding the potential costs of McCloud remedy, and steps that should be taken to prevent increased costs being passed to local taxpayers?**

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<sup>54</sup> As appointed under regulation 114 of the 2013 Regulations

<sup>55</sup> Based on directions issued by HM Treasury and LGPS experience

<sup>56</sup> <https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes>

<sup>57</sup> Regulation 116 of the 2013 Regulations

# About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the [complaints procedure](#).

# Annex A

## Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

### **1. The identity of the data controller and contact details of our Data Protection Officer**

The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at [dataprotection@communities.gov.uk](mailto:dataprotection@communities.gov.uk)

### **2. Why we are collecting your personal data**

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

### **3. Our legal basis for processing your personal data**

Section 21(1) of the Public Service Pension Act 2013 states:

*'Before making scheme regulations the responsible authority must consult such persons (or representatives of such persons) as appear to the authority likely to be affected by them'.*

MHCLG will process personal data only as necessary for the effective performance of this duty. In this case, the Secretary of State is the responsible authority for the LGPS in England and Wales.

The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

### **3. With whom we will be sharing your personal data**

We do not anticipate sharing personal data with any third party.

### **4. For how long we will keep your personal data, or criteria used to determine the retention period.**

Your personal data will be held for two years from the closure of the consultation.

### **5. Your rights, e.g. access, rectification, erasure**

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

- a. to see what data we have about you

- b. to ask us to stop using your data, but keep it on record
- c. to ask to have all or some of your data deleted or corrected
- d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

- 6. Your personal data will not be sent overseas**
- 7. Your personal data will not be used for any automated decision making.**
- 8. Your personal data will be stored in a secure government IT system.**

# Annex B – Draft regulations

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STATUTORY INSTRUMENTS

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2020 No.

**PUBLIC SERVICE PENSIONS, ENGLAND AND WALES**

**The Local Government Pension Scheme (Amendment) Regulations 2020**

<i>Made</i>	- - - -	***
<i>Laid before Parliament</i>		***
<i>Coming into force</i>	- -	***

The Secretary of State makes the following Regulations:

**Citation, commencement and extent**

- 1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2020.
- (2) These Regulations come into force on [XXXXXX] but regulations 2, 4, 5 and 6 have effect from 1st April 2014.
- (3) These Regulations extend to England and Wales.

**Amendment of the Local Government Pension Scheme Regulations 2013**

2. The Local Government Pension Scheme Regulations 2013<sup>(58)</sup> are amended in accordance with regulations 3 and 4.
3. In regulation 89 (annual benefit statement) after paragraph (4) insert—
- “(5) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for active members who had not reached their 2008 Scheme normal retirement age at the end of the scheme year to which it relates—
- (a) the provisional guarantee amount;
  - (b) the provisional assumed benefits; and
  - (c) the provisional underpin amount
- which would apply if the member’s underpin date was the closing date of the Scheme year to which the statement relates.

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<sup>(58)</sup> S.I. 2013/2356; those Regulations have been amended by S.I. 2014/44, S.I. 2014/525, S.I. 2014/1146, S.I. 2015/57, S.I. 2015/755, S.I. 2018/493, S.I. 2019/1449.



(6) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for deferred and deferred pensioner members—

- (a) the provisional guarantee amount;
- (b) the provisional assumed benefits; and
- (c) the provisional underpin amount

calculated as at their underpin date and adjusted by the appropriate index rate adjustment to the end of the Scheme year to which the statement relates.

(7) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for active members who had reached their 2008 Scheme normal retirement age at the end of the relevant Scheme year—

- (a) the provisional guarantee amount;
- (b) the provisional assumed benefits; and
- (c) the provisional underpin amount

calculated as at their underpin date revalued to the end of the Scheme year to which the statement relates.

(8) The provisional guarantee amount is calculated in accordance with regulation 4(4) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

(9) The provisional assumed benefits are calculated in accordance with regulation 4(5) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

(10) The provisional underpin amount is calculated in accordance with regulation 4(6) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

4.—(1) In Schedule 1 (interpretation) after the definition of “registered pension scheme” insert—

“relevant scheme membership” has the meaning given by regulation 4(1A) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014;”

#### **Amendment of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014**

5. The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014<sup>(59)</sup> are amended in accordance with regulation 6.

6. In regulation 4 (statutory underpin)—

- (a) in paragraph (1)(a) omit the words from “and who on 1st April 2012” to the end;
- (b) for paragraph (1)(b) substitute—

“(b) is or has been an active member of the 2014 Scheme; and”

- (c) in paragraph (1)(c) substitute “; and” with “.”;
- (d) omit paragraph (1)(d);
- (e) at the end insert—

“(1A) For the purpose of this regulation a member’s relevant scheme membership is a single Scheme membership which meets the requirements of paragraph (1)(a), (1)(b) and (1)(c).

(1B) Where a member has had periods of concurrent employment, or a break in service that is not a disqualifying break in service, a member only has a relevant scheme membership if the member’s scheme membership including the period referred to in paragraph (1)(a) has been aggregated with their 2014 Scheme pension account, following a decision taken under—

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<sup>(59)</sup> S.I. 2014/525.

- (a) regulations 16 or 17 of the Administration Regulations, where the member has subsequently joined the 2014 Scheme by virtue of regulation 5(1),
  - (b) regulations 10(5) or (6) of these Regulations, or
  - (c) regulations 22(5), 22(6), 22(7) or (8) of the 2013 Regulations.
- (1C) Paragraph (1D) applies where;
- (a) an active or deferred member would otherwise have relevant Scheme membership;
  - (b) but prior to [XXXXXXXX] previous Scheme membership including the period referred to in paragraph (1)(a) had not been aggregated with the member's 2014 Scheme pension account under paragraphs (1B)(a), (1B)(b) or (1B)(c).
- (1D) Where this paragraph applies, an active or deferred member has a twelve month period commencing from [XXXXXXXX] to elect to aggregate the previous Scheme membership that would give the member relevant Scheme membership.
- (f) in paragraph (2) for "The underpin date" substitute "Subject to paragraphs (2A) and (2B) a member's underpin date in a relevant Scheme membership";
  - (g) for paragraph (2)(b) substitute—
    - "(b) the date the member ceased to be an active member of the 2014 Scheme in an employment with a deferred or immediate entitlement to a pension; or";
  - (h) after paragraph 2(b) insert—
    - "(c) the date a member elects with their Scheme employer's consent to receive immediate payment under regulation 30(6) of the 2013 Regulations."
  - (i) after paragraph 2 insert—
    - "(2A) A member's date of death shall be their underpin date in a relevant Scheme membership where that date is earlier than the date provided for by paragraphs (2)(a) or (2)(b).
    - (2B) A member to whom paragraph (2)(b) has applied may have further underpin dates under paragraphs (2) or (2A) where they have either—
      - (a) become an active member of the 2014 Scheme again before reaching their 2008 Scheme normal retirement age without a disqualifying break in service and aggregated their previous relevant scheme membership with their active member's pension account under regulation 22(8) of the 2013 Regulations, or
      - (b) continued in active membership of the 2014 Scheme in an employment which had been concurrent with the employment through which they had an underpin date under paragraph (2)(b) and aggregated their previous relevant scheme membership with their active member's pension account under regulation 22(7) of the 2013 Regulations."
  - (j) for paragraph (3) substitute—
    - "(3) For the purpose of this regulation a disqualifying break in service is a continuous break after 31st March 2012 of more than 5 years in active membership of a public service pension scheme."
  - (k) for paragraph (4) substitute—
    - "(4) A member's provisional guarantee amount in a relevant scheme membership is the amount by which a member's provisional underpin amount exceeds the provisional assumed benefits on their underpin date."
  - (l) after paragraph (4) insert—
    - "(4A) Where paragraph (2B) applies, the value of the member's provisional assumed benefits, provisional underpin amount and provisional guarantee amount as calculated at their latest underpin date must be used for the purpose of this regulation."
  - (m) for paragraph (5) substitute—
    - "(5) The provisional assumed benefits are calculated by assessing the benefits the member would have been entitled to under the 2014 Scheme in a relevant Scheme membership if—";

- (n) in paragraph (5)(a) substitute “the underpin date” with “31st March 2022 or the member’s underpin date, whichever date is the earlier”;
- (o) in paragraph (5)(b) substitute “the underpin date” with “31st March 2022 or the member’s underpin date, whichever date is the earlier”;
- (p) after paragraph (5) insert—
  - “(5A) Where the member’s pension has come into payment under regulation 35 of the 2013 Regulations, the provisional assumed benefits calculated in accordance with paragraph (5) must include any adjustment under regulation 39 of the 2013 Regulations for the period up to the earlier of the member’s 2008 Scheme normal retirement age and 31st March 2022.
  - (5B) Where a member’s underpin date has arisen under paragraph (2A), the provisional assumed benefits calculated in accordance with paragraph (5) must include the amount calculated under regulation 41(4)(b) of the 2013 Regulations for the period up to the earlier of the member’s 2008 Scheme normal retirement age and 31st March 2022.”
- (q) for paragraph (6) substitute—
  - “(6) The provisional underpin amount is calculated by assessing the benefits the member would have had an immediate entitlement to payment of under the 2008 Scheme in a relevant Scheme membership if—
- (r) in paragraph (6)(a) substitute “the underpin date” with “31st March 2022 or the member’s underpin date, whichever date is the earlier”;
- (s) in paragraph (6)(b)(iii)—
  - (i) substitute “the member’s assumed benefits” with “the member’s provisional assumed benefits”;
  - (ii) at the end add “but limited to the earlier of the member’s 2008 Scheme normal retirement age and 31st March 2022”
- (t) after paragraph (6) insert—
  - “(6A) Where a member’s underpin date has arisen under paragraph (2A), the provisional underpin amount calculated in accordance with paragraph (6) must include an amount equivalent to the enhancement that would apply under regulation 24(2) of the Benefits Regulations, for the period up to the earlier of the member’s 2008 Scheme normal retirement age and 31st March 2022.”
  - “(7) Subject to paragraph (8) a member’s underpin crystallisation date in a relevant Scheme membership is the earliest of the following dates—
    - (a) the date from which the member elects to receive payment of a retirement pension under regulations 30(1), 30(5) or 30(6) of the 2013 Regulations;
    - (b) the date from which the member becomes entitled to receive payment of a retirement pension under regulation 30(7) of the 2013 Regulations;
    - (c) the date from which the member becomes entitled to an ill-health retirement pension under regulation 35(1) or regulation 38(1) of the 2013 Regulations;
    - (d) the date the member receives payment under regulation 34 of the 2013 Regulations;
    - (e) the date the member transfers their benefits out of the 2013 Regulations following;
      - (i) an application made under regulation 96 of the 2013 Regulations; or
      - (ii) by virtue of regulation 98 of the 2013 Regulations.
    - (f) the date a member dies.
  - (8) A deferred pensioner member who has had an underpin crystallisation date in a relevant Scheme membership pursuant to paragraph (7) following receipt of Tier 3 benefits has an additional underpin crystallisation date which is the earliest of the subsequent events referred to in paragraphs (7)(a) to (f).

- (9) Where paragraphs 7(a), (b) or (c) apply to a member, the member's pension account must be increased by the final guarantee amount at the underpin crystallisation date.
- (10) The final guarantee amount is the amount by which the final underpin amount exceeds the final assumed benefits on the underpin crystallisation date.
- (11) Where a member who elects to receive payment of a retirement pension under regulation 30(6) of the 2013 Regulations has a final guarantee amount at their underpin crystallisation date, a proportion of that final guarantee amount equal to the proportion of the member's 2014 Scheme benefits that the member has elected to take under regulation 30(6) must be transferred to the member's flexible retirement pension account.
- (12) A final guarantee amount payable to a member pursuant to paragraph (7)(a) and the remainder of the member's final underpin amount are payable to the member without further actuarial adjustment relating to the age at which the benefits are taken.
- (13) When paragraph (7)(a) applies to a member the final assumed benefits for the member are the value of provisional assumed benefits calculated in accordance with paragraph (5) with the following adjustment—
- (a) any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their underpin crystallisation date; and
  - (b) any actuarial adjustment which would have applied under the 2013 Regulations, relating to the age at which the pension was taken.
- (14) When paragraph (7)(a) applies to a member the final underpin amount is the value of the provisional underpin amount calculated in accordance with paragraph (6) but—
- (a) updated to the underpin crystallisation date to include increases which would have applied under the Benefits Regulations by virtue of the Pension (Increase) Act 1971<sup>(60)</sup> between a member's underpin date and their underpin crystallisation date; and
  - (b) including any actuarial adjustment which would have applied under the Benefits Regulations relating to the age at which the pension was taken.
- (15) When paragraph (7)(b) or (c) applies to a member the final assumed benefits for the member are the value of provisional assumed benefits calculated in accordance with paragraph (5) with the following adjustment—
- (a) any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their underpin crystallisation date; and
  - (b) any actuarial increase which would have applied under the 2013 Regulations, relating to the age at which the pension was taken.
- (16) When paragraph (7)(b) or (c) applies to a member the final underpin amount is the value of the provisional underpin amount calculated in accordance with paragraph (6) but—
- (a) updated to the underpin crystallisation date to include increases which would have applied under the Benefits Regulations by virtue of the Pension (Increase) Act 1971 between a member's underpin date and their underpin crystallisation date; or
  - (b) including any actuarial increase which would have applied under the Benefits Regulations relating to the age at which the pension was taken.
- (17) When paragraphs (7) (d), (e) (i) or (e)(ii) apply to a member the value of the payment due at a member's underpin crystallisation date must be calculated in accordance with actuarial guidance issued by the Secretary of State.

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<sup>(60)</sup> 1971 c. 56.

- (18) A request for a cash equivalent value of a member's pension rights under Regulation 4 of the Pension Sharing (Valuation) Regulation 2000<sup>(61)</sup> is not to be treated as a member's underpin date or underpin crystallisation date.
- (19) A request made pursuant to paragraph (18) is to be calculated in accordance with actuarial guidance issued by the Secretary of State.
- (20) Following the death of a person to whom this regulation applies, any provisional guarantee amount applicable at the member's underpin date must be updated to include any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their date of death, and shall be known as the member's adjusted provisional guarantee amount.
- (21) Where, pursuant to paragraph (20), a provisional guarantee amount applied at a deceased member's underpin date, the rate listed in column two of the below table must be applied to the adjusted provisional guarantee amount, to determine the addition to the relevant survivor benefit.

<i>2013 Regulation</i>	<i>Rate</i>
41(4)	49/160
42(4)	49/320
42(5)	49/160
42(9)	49/240
42(10)	49/120
44(4)	49/160
45(4)	49/320
45(5)	49/160
45(9)	49/240
45(10)	49/120
47(4)	49/160
48(4)	49/320
48(5)	49/160
48(9)	49/240
48(10)	49/120

(22) Where, pursuant to paragraph (20), a provisional guarantee amount applied at a deceased member's underpin date, the adjusted provisional guarantee amount must be used in determining the annual amount of pension the member would have been entitled to under regulations 43(3) and 46(3) of the 2013 Regulations.

We consent to the making of these Regulations

*Names*  
Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Housing, Communities and Local Government

*Name*  
Parliamentary Under Secretary of State  
Ministry of Housing, Communities and Local Government

Date \_\_\_\_\_

<sup>(61)</sup> S.I. 2000/1052.

## **EXPLANATORY NOTE**

*(This note is not part of the Regulations)*

These Regulations amend the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the Transitional Regulations”). Both sets of regulations came substantively into effect on 1st April 2014 and certain provisions listed in regulation 1 take effect from that date.

Regulations 2 to 4 amend the Local Government Pension Scheme Regulations 2013.

Regulations 5 and 6 amend the Transitional Regulations in regards to the operation of the underpin.

An impact assessment has not been produced for this instrument as no impact is anticipated on the private or voluntary sectors.

# Annex C – The two-stage process

As outlined in paragraphs 61 and 62, we are proposing the introduction of a two-stage process for calculating a qualifying member's entitlement from the underpin. Under this, calculations would take place at a qualifying member's underpin date and their underpin crystallisation date. This annex contains further details on the proposals we set out in our draft regulations.

## The underpin date – proposed approach

- A qualifying member's underpin date would be the earlier of:
  - the date they leave active service with an immediate or deferred entitlement to a pension,
  - the date they reach their 2008 Scheme NPA, or
  - the date they die.
- The underpin date would relate to a specific 'relevant scheme membership' – i.e. a single, aggregated (where appropriate), scheme membership in which the member:
  - was active in the LGPS on 31<sup>st</sup> March 2012,
  - had membership of the 2014 Scheme, and
  - did not have a disqualifying break in service.
- It is possible a qualifying member may have two (or more) relevant scheme memberships. Where this applies, they may have different underpin dates in respect of each one.
- At a qualifying member's underpin date, an initial comparison of the member's 2014 Scheme and 2008 Scheme benefits would be undertaken based on:
  - the member's 'provisional assumed benefits' in a relevant scheme membership – broadly<sup>62</sup>, the career average benefits they have accrued in the 2014 Scheme over the underpin period<sup>63</sup>, and
  - the member's 'provisional underpin amount' in a relevant scheme membership – broadly, the final salary benefits the member would have built up in the 2008 Scheme over the same period<sup>64</sup>.

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<sup>62</sup> For members who have had a period in the 50/50 section of the 2014 Scheme, the underpin calculation assumes the member remained in the full section of the 2014 Scheme.

<sup>63</sup> The underpin period runs from 1st April 2014 to 31st March 2022, or to the member's underpin date where that is earlier than 31st March 2022.

<sup>64</sup> If the underpin date is after 31<sup>st</sup> March 2022, the member's final salary for the year up to their underpin date would be used for the purposes of calculating their provisional underpin amount.

- If the provisional underpin amount is higher than the provisional assumed benefits at a qualifying member's underpin date, the member would be awarded a 'provisional guarantee amount' in respect of that relevant scheme membership.
- A provisional guarantee amount is a provisional assessment that the 2008 Scheme benefits would have been better for the member. At a qualifying member's underpin date, there would be no change to their pension entitlement arising from the provisional guarantee amount<sup>65</sup>. However, annual benefit statements sent to the member after their underpin date would confirm if a provisional guarantee amount has applied.
- Qualifying members may have multiple underpin dates in respect of a relevant scheme membership. This may occur where:
  - The member has concurrent employments and ceases to be an active member in one before their 2008 Scheme NPA (in which they have relevant scheme membership). An underpin date would apply at the point the member leaves the LGPS in that post. If the member then aggregates their relevant scheme membership with their ongoing post, a further underpin date would apply at the earlier of the following:
    - the date they leave active service,
    - the date they reach their 2008 Scheme NPA, or
    - the date they die.
  - The member leaves an employment in which they have relevant scheme membership with an immediate or deferred entitlement to a pension. An underpin date would apply at their date of leaving. If the member then re-joins the LGPS and aggregates their membership (without a disqualifying break in service), a further underpin date would apply at the earlier of the following:
    - the date they leave active service,
    - the date they reach their 2008 Scheme NPA, or
    - the date they die.
- Where a qualifying member has multiple underpin dates, it would be their provisional amounts from their latest underpin date that would be used for the purposes of the calculations at their underpin crystallisation date.

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<sup>65</sup> Unless their underpin crystallisation date immediately follows their underpin date – for example, if a member takes immediate payment of their benefits upon leaving the scheme.



## The underpin crystallisation date – proposed approach

- As the period between a qualifying member's underpin date and the date they take their benefits from the LGPS could be as much as 30 or 40 years, we propose that all qualifying members have an underpin crystallisation date in respect of a relevant scheme membership. This would ensure the comparison can be made when there is certainty on the final actuarial adjustments that might be applied, and in respect of the member's State Pension age.
- A variety of circumstances would give rise to a qualifying member's underpin crystallisation date and, in general<sup>66</sup>, a qualifying member can only have one underpin crystallisation date in respect of a relevant scheme membership. A qualifying member's underpin crystallisation date would be the earliest of the following in respect of a relevant scheme membership:
  - the date a member takes voluntary payment of their pension, at any age between 55 and 75,
  - the date a member takes flexible retirement,
  - the date a member aged 55 or over leaves active membership as a result of redundancy, or due to business efficiency,
  - the date a member retires on ill-health grounds,
  - the date a member transfers out or trivially commutes their benefits, or
  - the date a member dies.
- What happens at a qualifying member's underpin crystallisation date would vary, and is described in more detail for each circumstance in 'the revised underpin – application' section in the body of this document. In most cases, however, it would involve a member's provisional underpin amount and their provisional assumed benefits being updated to give a member's 'final underpin amount' and their 'final assumed benefits'. How the provisional figures are updated to become final figures would vary depending on the circumstance. The below table summarises what is proposed to apply under the draft regulations.

<b>Circumstance giving rise to a member's underpin crystallisation date</b>	<b>How provisional underpin amount and provisional assumed benefits calculated at a qualifying member's underpin date are updated at a member's underpin crystallisation date</b>

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<sup>66</sup> An exception applies in relation to members who receive a temporary (tier 3) ill-health pension. For such members, they will have an underpin crystallisation date upon receiving their temporary ill-health pension and then a subsequent one when their underpin crystallises from 'deferred pensioner' status.

Voluntary age retirement or flexible retirement	<ul style="list-style-type: none"> <li>• To include any cost of living increases that would have applied to the member's pension under the 2008 or 2014 Schemes between the member's underpin date and their underpin crystallisation date, and</li> <li>• To include any actuarial adjustments relating to the member's age, that would have applied under the 2008 or the 2014 Schemes.</li> </ul>
Redundancy <sup>67</sup> and ill-health pension being paid (from active or deferred status)	<ul style="list-style-type: none"> <li>• To include any cost of living increases that would have applied to the member's pension under the 2008 or 2014 Schemes between the member's underpin date and their underpin crystallisation date, and</li> <li>• To include any actuarial increases relating to the member's age, that would have applied under the 2008 Scheme and 2014 Scheme.</li> </ul>

- Where a qualifying member's final underpin amount is higher than their final assumed benefits at their underpin crystallisation date, the member would be awarded a 'final guarantee amount' in respect of that relevant scheme membership. An addition would be made to their pension account in respect of that final guarantee amount.
- For certain types of underpin crystallisation, the draft regulations do not prescribe that members' provisional underpin amount and provisional assumed benefits are updated to give 'final' amounts. This applies in the following cases:
  - Transfers out – instead, administrators would need to comply with actuarial guidance issued by the Secretary of State, and the Public Sector Transfer Club memorandum, where appropriate
  - Trivial commutations – instead, administrators would need to comply with actuarial guidance issued by the Secretary of State
  - Deaths – instead, the regulations prescribe what should apply in relation to any survivor benefits that may be payable.

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<sup>67</sup> Including termination on grounds of business efficiency

## Annex D – Illustrative examples

This annex provides examples to illustrate how the proposed underpin would operate in different situations. These examples illustrate some (but not all) of the factors which may impact whether or not an underpin addition may apply in different situations.

The examples shown are:

1. Retirement from active service at age 65
2. Retirement from active service at State Pension age ('SPa')
3. Early retirement from active service at age 60
4. Deferred retirement with no underpin at underpin date
5. Deferred retirement with an underpin at underpin date

All the examples are based on a member aged 47 in 2012, who did not receive underpin protection originally. This member has a 2014 Scheme normal pension age equivalent to their SPa under the current timetable, 67.

The examples rely on the following assumptions:

- The pension calculated is the pension accrued over the underpin period (1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2022), as payable at retirement. In practice, such members will also have pension relating to pre-2014 and post-2022 periods which is not considered here.
- Inflation reflects actual experience up to 2020, with 2% pa assumed thereafter; increases are applied on 1 April.
- Salary increases, promotions and retirements occur on 31<sup>st</sup> March in the relevant year.
- The current State Pension age timetable is followed.
- The pension amounts are in nominal terms at retirement.
- The amounts are shown rounded to the nearest £10.

Please note that these examples are for illustrative purposes only. Generally, they only consider one of the key variables which may impact how the proposed underpin would apply to a member, in practice other variables may also be significant. The comparisons are based on the pension payable at retirement.

## Example 1 (retirement at age 65)

In 2012 the member was aged 47, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49 <sup>th</sup> of revalued salary each year Payable unreduced from State Pension age	1/60 <sup>th</sup> of final salary each year Payable unreduced from age 65

In this example the member's underpin date will be the same as the underpin crystallisation date and, practically, only one check will be required.

As the member is taking their benefits immediately upon leaving, we can adjust the 2014 Scheme pension to allow for this being paid two years earlier than their 2014 Scheme normal pension age (age 67). No adjustment would be required in this example for the calculation of the 2008 Scheme benefit (as this would be paid without adjustment from age 65).

If the member had a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at age 65**, their pensions over the underpin period would be as follows:

2014 Scheme (age 65): £6,100 pa	2008 Scheme (age 65): £6,060 pa
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In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition required**.

### Alternatively

If the member was promoted twice, receiving **an additional 5% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the underpin is now more than the age-adjusted 2014 Scheme pension at age 65:

2014 Scheme (age 65): £6,100 pa	2008 Scheme (age 65): £6,670 pa
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The **final guarantee amount** is the difference between these two amounts which equals £570. Following high salary increases the 2008 Scheme benefit structure becomes relatively more valuable and hence an **underpin addition** would be required. The 2014 Scheme benefit would be increased by the underpin addition of £570 per year.

## Example 2 (retirement at SPa)

In 2012 the member was aged 47, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

### 2014 Scheme

1/49<sup>th</sup> of revalued salary each year  
Payable unreduced from State Pension age

### 2008 Scheme

1/60<sup>th</sup> of final salary each year  
Payable unreduced from age 65

In this example the member's underpin date will be when the member reaches age 65. At the underpin date the 2014 Scheme and 2008 Scheme benefits will be compared (with no allowance for actuarial adjustment).

If the member has the same **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at Spa** (67, in this case), the comparison at the underpin date is as follows:

2014 Scheme (age 65):  
£6,770 pa

2008 Scheme (age 65):  
£6,060 pa

The check at the underpin date shows the 2014 Scheme benefits are greater than the 2008 Scheme benefits and therefore **no 'provisional guarantee amount'** is required.

A subsequent test will be carried out at the member's underpin crystallisation date, their retirement age, SPa (age 67), when the revalued pension amounts and correct actuarial adjustment factors are known. In both cases the provisional assumed benefits and provisional underpin amount will be revalued in line with cost of living between age 65 and retirement. No actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years late retirement factors:

2014 Scheme (SPa):  
£7,040 pa

2008 Scheme (SPa):  
£6,770 pa

For this member **no underpin addition** would be required.

### Alternatively

However, if the member was promoted twice, receiving **an additional 5% salary increase** at the end of the underpin period and **an additional 5% salary increase** five years later, the comparison at the underpin date (age 65) is now:

2014 Scheme (age 65):  
£6,770 pa

2008 Scheme (age 65):  
£6,670 pa

The check at the underpin date shows **no 'provisional guarantee amount'** is required.

A further check would be undertaken when the member takes their pension at their underpin crystallisation date, SPa (age 67). This check shows that once revaluation and different actuarial adjustments are allowed for the 2008 Scheme benefits are higher and the difference or **final guarantee amount** would be £400. The member's 2014 Scheme benefit would be increased by an **underpin addition** of £400 per year.

2014 Scheme (SPa):  
£7,040 pa

2008 Scheme (SPa):  
£7,440 pa

## Example 3 (early retirement)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

### 2014 Scheme

1/49<sup>th</sup> of revalued salary each year  
Payable unreduced from State Pension age

### 2008 Scheme

1/60<sup>th</sup> of final salary each year  
Payable unreduced from age 65

In this example the member's underpin date will be the same as the underpin crystallisation date and, practically, only one check will be required.

As the member is taking their benefits immediately upon leaving, we can adjust the 2014 Scheme pension to allow for this being paid seven years earlier than the 2014 Scheme normal pension age (SPa, age 67); and the 2008 Scheme benefits are also reduced to reflect that this is being paid five years earlier.

If the member had a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at age 60**, their pensions over the underpin period would be as follows:

2014 Scheme (age 60):  
£4,350 pa

2008 Scheme (age 60):  
£4,070 pa

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition** required.

## Alternatively

If the member was promoted twice, receiving **an additional 10% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the 2008 Scheme benefit is now more than the 2014 Scheme pension at age 60:

2014 Scheme (age 60):  
£4,350 pa

2008 Scheme (age 60):  
£4,460 pa

Following high salary increases the 2008 Scheme benefit structure becomes relatively higher and hence an **underpin addition** would now be required. The 2014 Scheme benefit would be increased by £110 pa.

## Example 4 (retirement from deferment #1)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49 <sup>h</sup> of revalued salary each year Payable unreduced from State Pension age	1/60 <sup>th</sup> of final salary each year Payable unreduced from age 65

The example shows how the underpin check would work where the member leaves service at age 58 (with a deferred pension) which they subsequently draw at age 67. Under our proposals, an initial underpin check would be undertaken at the date of leaving active service (their underpin date) which would compare the 2014 Scheme benefits with the 2008 Scheme benefits over the underpin period. This comparison would not consider the effect of actuarial adjustments for age, as these would not be known at the member's underpin date.

If they had a **salary of £30,000 in 2014**, experience future annual **salary increases of 1% above inflation** until **leaving the scheme at age 58**, the pensions over the underpin period would be as follows:

2014 Scheme: £5,890 pa	2008 Scheme: £4,930 pa
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The check at the underpin date shows the 2014 Scheme benefits are greater than the 2008 Scheme benefits and **no 'provisional guarantee amount'** is required.

A subsequent underpin crystallisation test will be carried out when the member takes their pension at SPa (age 67), when the final revalued amounts and correct actuarial adjustment factors are known. In both cases the pension amounts will be revalued in line with cost of living between age 58 and retirement. No further actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years' late retirement factors:

2014 Scheme (SPa): £7,040 pa	2008 Scheme (SPa): £6,320 pa
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In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition** required.



## Alternatively

If the member was promoted twice, receiving **an additional 5% salary increase** halfway through the underpin period and **an additional 10% salary increase** at the end of the underpin period, the calculations at the underpin date would show the 2014 Scheme benefits are higher:

2014 Scheme:  
£6,040 pa

2008 Scheme:  
£5,670 pa

A further test would be undertaken at the underpin crystallisation date; when the member retires (SPa, age 67). This check shows that once revaluation and different actuarial adjustments are allowed for the 2008 Scheme benefits are higher and the difference or **'final guarantee amount'** would be £50.

2014 Scheme (SPa):  
£7,220 pa

2008 Scheme (SPa):  
£7,270 pa

Following high salary increases the 2008 Scheme benefit structure becomes relatively more valuable and hence an underpin addition would now be required. The 2014 Scheme benefit would be increased by £50 pa.

## Example 5 (retirement from deferment #2)

In 2012 the member was aged 47, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49 <sup>h</sup> of revalued salary each year Payable unreduced from State Pension age	1/60 <sup>th</sup> of final salary each year Payable unreduced from age 65

This example shows how the underpin check would work where the member leaves service at age 63 (with a deferred pension) which they subsequently draw at age 67. Under our proposals, an initial underpin check would be undertaken at the date of leaving active service (their underpin date) which would compare the 2014 Scheme benefits with the 2008 Scheme benefits over the underpin period. This comparison would not consider the effect of actuarial adjustments for age, as these would not be known at the member's underpin date.

If the member has a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation**, an **additional 10% salary increase** halfway through the underpin period and **an additional 10% salary increase** at the end of the underpin period until **leaving the scheme at age 63**, the relative pensions over the underpin period would be as follows:

2014 Scheme: £6,830 pa	2008 Scheme: £6,870 pa
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In this example there is a **'provisional guarantee amount'** of £40 pa.

A subsequent test will be carried out at the member's underpin crystallisation date, their retirement age, SPa (age 67), when the final revalued amounts and correct actuarial adjustment factors are known. In both cases the pension amounts will be revalued in line with cost of living between age 63 and retirement. No further actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years' late retirement factors:

2014 Scheme (SPa): £7,390 pa	2008 Scheme (SPa): £7,980 pa
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This check shows that once revaluation and different actuarial adjustments are allowed for, the 2008 Scheme benefits are higher and the difference or **final guarantee amount**

would be £490. The member's 2014 Scheme benefit would be increased by an **underpin addition** of £490pa.

This again illustrates that following high salary increases the 2008 Scheme benefit structure can become relatively more valuable than the 2014 Scheme benefit, and also how the required underpin addition can change between a member's underpin date and their underpin crystallisation date.

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**The London Borough of Havering** in its capacity as an administering authority is responding to the Minister for Housing, Communities and Local Government consultation **LGPS: Amendments to the statutory underpin**

Thank you for setting out the policy consultation on changes to the regulations governing the Local Government Pension Scheme and for the opportunity for us to comment.

The London Borough of Havering's response to the consultation is to endorse those comments raised by the Funds Actuaries Hymans Robertson LLP who submitted a response on the 2 July 2019.

For completeness I have included Hymans response as below:

**Question 1 – Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?**

Yes. This would be consistent with the Court of Appeal's ruling.

**Question 2 – Do you agree that the underpin period should end in March 2022?**

The original underpin could not have applied to service after 31 March 2022 and ceasing the underpin period on that date is consistent with the original commitment that members within 10 years of retirement on 31 March 2012 would be no worse off. We see no case to extend the underpin period beyond this date.

**Question 3 – Do you agree that the revised regulations should apply retrospectively to 1st April 2014?**

The age discrimination began on 1 April 2014 so, in order to address it, regulations must be applied retrospectively.

**Question 4 – Do the draft regulations implement the revised underpin which we describe in this paper?**

Yes.

**Question 5 – Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?**

The protection would appear to work effectively, however the additional work required of employers and especially LGPS administrators should not be underestimated.

It is likely that a significant number of employers will not be able to provide every piece of data that is required to calculate the underpin across all eligible members e.g. historic salary details for ex-employees. Funds may therefore need to make assumptions to fill in any gaps in the data, which could undermine the effectiveness of the regulations. We would welcome guidance from MHCLG/SAB on how funds

should account for any missing data required to calculate the underpin and how this should be communicated with employers and impacted scheme members.

**Question 6 – Do you have other comments on technical matters related to the draft regulations?**

We note that the consultation document states, in respect of the death of an active member that “For a qualifying member in active service, their date of death will be both their underpin date and their underpin crystallisation date”.

However, this will not always be the case and a member who dies in active service after their 2008 Scheme NPA will have a separate underpin date and underpin crystallisation date.

The proposed amendments to the LGPS Regulations address this point and confirm that;

*(2A) A member’s date of death shall be their underpin date in a relevant Scheme membership where that date is earlier than the date provided for by paragraphs (2) (a) [2008 NRA] or (2)(b) [date of leaving 2014 scheme]*

**Question 7 – Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?**

By extending the underpin to those who do not have an immediate entitlement to benefit (and by extension to those who have already retired without an immediate entitlement to benefit) the protection does more than simply address existing age discrimination. Under these proposals the underpin will now apply to members of all ages in more circumstances than was previously the case.

However, the original assurance to members of public service pension schemes was that “Anyone 10 years or less from retirement age on 1 April 2012 can be assured that there will be no detriment to their retirement income<sup>1</sup>”. In practice, the underpin in its current incarnation can produce a scenario in which a member who was within 10 years or less from retirement on 1 April 2012 is worse off, just by virtue of retiring from deferred status.

We understand the government’s policy intention is to rectify this anomaly and we agree that underpin should be extended to those members who leave without an immediate entitlement to pension.

**Question 8 – Are there any other comments regarding the proposed underpin qualifying criteria you would like to make?**

Our response to question 10 below sets out our views in relation to the provision of a further 12 month period for certain individuals to elect to aggregate previous LGPS benefits as a consequence of the proposed changes. Paragraph 43 of the consultation document states that those members who leave the LGPS without an immediate entitlement to a deferred pension (i.e. they have less than the 2 year qualifying membership period) would not have underpin protection “...as they would

only be eligible for a refund of their contributions, aggregation with another LGPS record or a transfer to another scheme". It is unclear if such individuals would be considered as qualifying members for the purposes of the revised underpin if they aggregated with another LGPS record.

**Question 9 – Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?**

The principle that should generally apply is that each period of LGPS membership should be administered as a discrete record. We see this principle in practice when it comes to preserving the final salary link or protected retirement ages. For example, a member with a deferred record prior to 2014, and a current active record, will not enjoy a final salary link for the pre 2014 period.

There are examples that go against this principle within the LGPS, such as the administration of death grants, where Fund A cannot pay the correct death grant without knowledge of the member's record held in Fund B. This provides an unwelcome additional level of complexity and should be avoided where possible.

We agree that the underpin qualifying criteria should have to apply in a single record.

**Question 10 – Do you agree with our proposal that certain active and deferred members should have an additional 12 month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?**

It follows that if the regulations are amended to require a member to meet the underpin criteria in a single record then there are members with unaggregated periods of service, who currently qualify, who will lose their underpin entitlement.

In the interests of fairness such members should be given the opportunity to aggregate their records in order to preserve their underpin entitlement.

We believe there should be a discretion to allow administering authorities to extend the 12 month aggregation window. While we would hope that the exercise can be completed within 12 months there may be cases where through no fault of the member the exercise is not completed in time and it would be unreasonable for the member to miss out in such circumstances.

**Question 11 – Do you consider that the proposals outlined in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?**

It is possible to construct a scenario where a member could argue they had suffered adverse effects as a consequence of introducing the requirement to aggregate service in order to retain the underpin.

Take the following example;

A member who was within 10 years of NRA in the 2008 scheme, has the following service;

Membership 1 – active from 2000 to 2013, finishing on a final salary of £75,000

Membership 2 – active from 2013 to 2030, joining on a salary of £30,000

The member chose not to aggregate benefits on the basis that their pay in Membership 2 will never exceed their final pay in membership 1 plus CPI.

Under the current underpin arrangement the member will still benefit from underpin protection for the period 2014 to 2022. Under the new proposals, they would not.

The member may still choose to keep their service records separate to benefit from the £75,000 salary in membership 1.

If the new underpin proposals are implemented, and the member's pay in Membership 2 rises in such a way that treating the period 2014 – 2022 as final salary would actually have been better than treating it as career average, the member may claim they are losing out.

However, this situation is likely to be extremely rare and the option to allow members to make a late election to aggregate goes some way to mitigating the impact.

We also note that the proposed changes to the LGPS suggest that the aggregation window will not be extended to members who opted out after 11 April 2015 and then re-join.

**Question 12 – Do you have any comments on the proposed amendments described in paragraphs 56 to 59?**

No. The proposed amendments to widen or clarify the protections would appear to be consistent with the government's stated policy of ensuring appropriate protection for scheme members and their survivors.

It is appreciated, however, that the amendments to the protections will result in additional work for administrators potentially having to revisit underpin calculations where a protected member leaves active service, returns without a disqualifying break in service and elects to aggregate the two membership periods.

**Question 13 – Do you agree with the two-stage underpin process proposed?**

The two-stage approach is consistent with the government's stated policy intentions. The consultation document does acknowledge potential implications for annual allowance assessments, which we have covered off in our response to Q18 below.

**Question 14 – Do you have any comments regarding the proposed approaches outlined above?**

The proposed process for Club Transfers places a significant onus on the member as it requires them to make a decision as to how their benefits will be treated in the receiving scheme. This will inevitably be a complex financial decision and one where



the “correct” answer will not be known until retirement. This is an area where a consistent approach across funds and clear communication to members will be important.

**Question 15 – Do you consider there to be any notable omissions in our proposals on the changes to the underpin?**

No.

**Question 16 – Do you agree that annual benefit statements should include information about a qualifying member’s underpin protection?**

It would be useful for members who may be impacted by the underpin to receive underpin information in their annual benefit statements.

**Question 17 – Do you have any comments regarding how the underpin should be presented on annual benefit statements?**

The underpin will inevitably introduce additional complexity and it will be challenging to explain to members. Affected members will see their underpin value change from year to year and may see years when the underpin applies and years when it does not. We agree that a form of consistent presentation and wording for annual benefit statements would be helpful and welcome the proposal for SAB to provide a standardised approach.

**Question 18 – Do you have any comments on the potential issue identified in paragraph 110?**

We believe that on balance it is appropriate to apply the annual allowance test at the underpin crystallisation date. This is the date at which the definitive value of the underpin is calculated and, therefore, the date at which the member experiences the actual pension growth attributable to the underpin. The approach would also be consistent with that already in place for the existing underpin.

We recognise that this approach could have the effect of causing a spike in the closing value of a member’s benefits in the pension input period in which the underpin crystallisation date occurs. However, the benefit of this approach is that an affected member is more likely to have some unused annual allowance remaining from the previous 3 years which they can use to offset any tax charge.

The consultation document acknowledges that the proposed solution might not work for those members with relatively low career average pensions in respect of the underpin period, but relatively high final salary benefits as a consequence of career progression. Given that the effects of the revised underpin will be with us for many years into the future, we appreciate that the number of such cases over time might not be insignificant. We also appreciate that due to the level of career progression over time such individuals may no longer have unused annual allowance available to them to offset any breach.

There may be an argument, therefore, for requiring an annual assessment of the notional underpin against the annual allowance threshold, to ensure such individuals are not adversely impacted by the annual allowance.

This alternative approach of capturing the value of any notional underpin on a year by year basis may though have some unwelcome side effects for those individuals who do not enjoy an increase to final salary benefits through ongoing career progression. For example, applying the notional underpin in any given year may cause the member to breach the annual allowance, even though the member is a number of years away from retirement. The same member may then experience comparatively low pay growth over the years to retirement to an extent that, at the underpin crystallisation date, the underpin no longer applies. In these circumstances the member would have paid a tax charge on a benefit that was ultimately never realised.

At this stage, given that the effects of the revised underpin will be with us for many years, it is difficult to know what the scale of the issue might be in terms of the numbers who might be impacted and of those how many will not have the benefit of unused annual allowance to offset any breach. On balance, however, we support the proposal to apply the annual allowance test at the underpin crystallisation date rather than on an annual basis.

**Question 19 – Do the proposals contained in this consultation adequately address the discrimination found in the ‘McCloud’ and ‘Sargeant’ cases?**

We believe they do. The consultation itself suggests that active members between the ages of 41 and 55 would be more likely to benefit from the revised underpin, but this a function of the fact that final salary benefits in general tend to favour long serving members with good career progression.

**Question 20 – Do you agree with our equalities impact assessment?**

The assessments seem reasonable.

**Question 21 - Are you aware of additional data sets that would help assess the potential impacts of the proposed changes on the LGPS membership, in particular for the protected characteristics not covered by the GAD analysis (age and sex)?**

No.

**Question 22 – Are there other comments or observations on equalities impacts you would wish to make?**

No.

**Question 23 – What principles should be adopted to help members and employers understand the implications of the proposals outlined in this paper?**

Members will need to receive reassurance that the underpin process is fair and is being applied accurately. It will be important for members to understand that the process is an automatic one and does not require them to lodge a claim.

Some members may have misconceptions about the value of the underpin and should be made aware that the number of cases in which the underpin will actually 'bite' are likely to be small.

Communications with employers should focus on the practical requirements of providing the data required to operate the underpin and any assumptions being made where member data is missing.

**Question 24 – Do you have any comments to make on the administrative impacts of the proposals outlined in this paper?**

While the underpin will not actually take effect for most members, a large number of members are potentially affected and will require some form of ongoing record maintenance by employers and Funds. Our initial analysis suggested 1.2 million LGPS members would be in scope which means that many more records will need to be updated, and underpin calculations carried out than will ever result in an underpin addition being paid.

Adopting these proposals will inevitably have a significant impact on LGPS administrative teams and proper planning will be critical to ensure successful implementation.

The first challenge will be to obtain the data required from employers. It is to be hoped that for the majority of records this will be relatively straightforward, however, there will inevitably be situations where employers will not be able to provide the required data. This may be due to those employers no longer existing or historic payroll data not being retained.

The second big challenge will be applying the underpin test retrospectively to members who have already retired or left. While administration systems can be adapted to carry out these calculations, there will inevitably be complex cases which will require manual intervention.

The most complex cases will be where a retrospective underpin results in a member receiving a backdated payment. Additional complications would arise if the backdated payment was in respect of a survivor's pension. Thankfully these cases will be extremely rare.

The scale and complexity of this exercise could also create a significant communications challenge for administering authorities.

**Question 25 – What principles should be adopted in determining how to prioritise cases?**

Cases where members have already retired (or died) should be the priority as the underpin could impact on a member's (or survivor's) current retirement income.

Thereafter, members closer to their underpin crystallisation date should be prioritised.

**Question 26 – Are there material ways in which the proposals could be simplified to ease the impacts on employers, software systems and scheme administrators?**

Any attempts to simplify the proposals come with the effect of moving away from the policy intention.

There are some scenarios where the instances of the underpin applying will be extremely rare. For example, when applying the underpin calculation to an ill health case in which the member receives a tier 1 enhancement, the comparison will be between a 1/60th enhancement based on service to 65 and a 1/49th enhancement to NRA. The 2014 Scheme enhancement will realistically always exceed the 2008 Scheme enhancement. However, there could be cases of tier 1 ill-health where the member is very close to NRA and where the effect of the underpin on service between 2014 and 2022 is so great that the positive effect outweighs the impact of the tier 1 enhancement.

Removing the underpin for ill health cases would simplify matters, and for the overwhelming majority of cases have no effect. However, given that the intention is that no individual should lose out, taking this approach could mean that the policy is not being fully realised.

**Question 27 – What issues should be covered in administrative guidance issued by the Scheme Advisory Board, in particular regarding the potential additional data requirements that would apply to employers?**

One area where additional guidance would be welcome is what to do when an employer is incapable of providing historic member data. Ideally, SAB should publish a set of guidelines that provide a framework for employers and administering authorities when making assumptions about service and salary history in the absence of complete information.

**Question 28 – On what matters should there be a consistent approach to implementation of the changes proposed?**

We support a consistent centralised data template and communications, as issued by the SAB. We believe that a centralised approach to dealing with employers who cannot provide the necessary data is also welcome (see answer to question 27).

**Question 29 – Do you have any comments regarding the potential costs of McCloud remedy, and steps that should be taken to prevent increased costs being passed to local taxpayers?**

As the LGPS is a 'balance of cost' arrangement with fixed member contribution rates, the cost of the McCloud remedy will ultimately be met by employers. Many of these employers are councils that are funded by local taxpayers. However, whilst an increase in LGPS liabilities is unavoidable, funds have local control over the pace at

which these costs are managed over time. The majority of the costs will fall on employers with a long-term funding horizon and we generally don't expect material changes to contribution rates to arise from application of the remedy.

Our analysis suggests that the impact of the remedy might only add 0.2% to the liabilities of a typical LGPS fund, equivalent to c£0.5bn across all funds in England and Wales. This is lower than the £2.5bn estimate mentioned in paragraph 142 of the consultation, mainly because local funds assume that salary growth will be significantly lower than CPI + 2.2% pa.

At whole fund level, our estimate translates to a rise in typical primary contribution rates of 0.2% of pay until 2022, and a small change to secondary contribution rates of only 0.1% of pay. SAB asked funds and actuaries to allow for McCloud costs at the 2019 valuation when setting funding strategies. As a result, we expect that most funds will not revisit employer contribution rates until we reach the next valuation in 2022, unless there are concerns over rates for particular employers (see next paragraph).

Whilst at whole fund level the impact is small, it may be more material at individual employer level. The cost impact is likely to be higher for employers with youthful membership profiles, as there is a greater likelihood of the underpin 'biting' for younger members. Our analysis suggests that some employers may see their total liabilities increase by as much as 5-10% (equivalent to at least a 1% of pay contribution rate increase), whilst other employers will see no impact at all. There is also the potential for one-off significant cost increases e.g. for a small employer with only one active member who is awarded a significant pay increase.

The inclusion of McCloud in the national cost management mechanism will reduce, or possibly even wipe out completely, the proposed package of benefit improvements that had been due to take effect from 1 April 2019 in the LGPS in England and Wales.

Finally, aside from actuarial costs, the costs to funds in terms of administration and communications could be significant and could easily run into six figures in terms of extra FTE resource. These costs are typically recouped via an administration charge as part of employers' ongoing contribution rates.

**For and on behalf of the Havering Pension Fund**

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## PENSIONS COMMITTEE

1 OCTOBER 2020

**Subject Heading:**

**PENSION FUND ANNUAL REPORT-  
YEAR ENDED 31 MARCH 2020**

**SLT Lead:**

**Jane West**

**Report Author and contact details:**

**Debbie Ford**  
**Pension Fund Manager (Finance)t**  
**01708432569**

**Policy context:**

[Debbie.ford@onesource.co.uk](mailto:Debbie.ford@onesource.co.uk)

Regulation 57 of the LGPS Pension Scheme Regulations 2013 applies from reporting period commencing 1 April 2014 and requires an administrative authority to publish an annual report

**Financial summary:**

Audit costs for the pension fund annual report are part of the overall cost of auditing the pension fund statement of accounts

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

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

### SUMMARY

This report includes the Pension Fund Annual Report 2019/20 which has been prepared in accordance with Regulation 57 of the Local Government Pension Scheme Regulations 2013 which applies for reporting periods beginning 1 April 2014. This supersedes Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

## **RECOMMENDATIONS**

1. The committee agree the Draft 2019/2020 Pension Fund Annual Report as attached as **Appendix A**.
2. The committee agree the Pension Fund Annual Report will be published electronically once finalised.
3. That the Chair and the Statutory Section 151 officer be authorised to conclude the final version and sign so far as necessary, the annual report.

## **REPORT DETAIL**

### **1 Background**

1. For reporting periods beginning 1 April 2014, the statutory basis for Local Government Pension Scheme (LGPS) fund annual reports is Regulation 57 of The Local Government Pension Scheme Regulations 2013. It states that an administering authority must, in relation to each year beginning on 1<sup>st</sup> April 2014 and each subsequent year prepare a document ('the pension fund annual report'). This supersedes the regulations first introduced in 2008. LGPS funds have been required to produce an annual report each year since 2008.
2. The authority must publish the pension fund annual report on or before 1 December following the year end. This annual report covers the period 1 April 2019 to 31 March 2020.
3. The Regulations state that the annual report must contain the following:
  - a) Management and Financial Report
  - b) Investment Policy and Performance Report
  - c) Scheme Administration Report
  - d) Actuarial Statement
  - e) Current version of the Governance Compliance Statement
  - f) Fund Account and Net Asset Statement (including Audit opinion)
  - g) Levels of performance set out in a Pensions Administration Strategy
  - h) Current version of Funding Strategy Statement
  - i) Current version of Statement of Investment Principles (now replaced by the Investment Strategy Statement)
  - j) Current version of Communication Strategy
  - k) Any Other Material



4. In preparing and publishing the pension fund annual report, the authority must have regard to guidance given by the Secretary of State.
5. Authorities should use guidance as published by the Chartered Institute of Public Finance & Accountancy (CIPFA).
6. In order to meet current regulatory requirements an updated CIPFA guidance was published in March 2019 (replaces the March 2014 version).
7. The Annual report attached as **Appendix A** has been prepared in accordance with the guidance issued by CIPFA.
8. The new edition “preparing the annual report” made available in March 2019 includes additional new data requirements and in some instances it has not been practical to compile data in the relevant formats suggested in the guidance. In the areas where it is mandatory to provide the new data and this is not available explanations are provided.
9. The National Audit Office requires auditors to treat the LGPS fund as a separate audit engagement and requires a separate audit opinion on the pension fund accounts and the annual report. The auditors opinion will be included in the annual report which must be published no later than **1 December 19**.
10. The term ‘publish’ is given a wider meaning in that publication can be by electronic means. Once the annual report has been signed off it will be made available on the council’s website. However hard copies will be available upon request.
11. At the time of writing this report the 2019/20 pension fund annual report is still subject to final clearance by our auditor’s Ernst & Young as part of the overall audit of the Council’s accounts. A verbal update will be provided at the meeting on the outcome or progress of the audit if required. Any material changes to be delegated to the Chair and the Statutory Section 151 officer to conclude the final version.

<b>IMPLICATIONS AND RISKS</b>
-------------------------------

**Financial implications and risks:**

Auditors will be unable to finalise the audit opinion for the Administering Authority Accounts until they are satisfied that the financial statements in the annual report are the same as those reported in the authority’s accounts. The Pension Fund Annual report has been produced in a timely manner in order for the audit of the

authority's accounts to be concluded and to meet the regulatory publication deadline.

The Audit Fees are included within the Havering Pension Audit Planning Report for the year ending 31 March which was presented to the Audit committee on the **28 July 2020**.

The planned cost of a separate audit opinion for the 2019/20 Pension Fund accounts is expected to be c£55,000 (£16,170 2018/19), which includes the cost of the Pension Fund Annual Report. This results in an increase in the fee of £38,830. Our auditors have discussed the estimate and position on audit fees with the Statutory Section 151 officer. The Council have not currently agreed to the variation to the scale fee but understand that our auditors will be submitting their fee estimate to Public Sector Audit Appointments (PSAA) for them to determine. At the time of writing this report the Council are continuing to seek Legal and Procurement advice with regard to options on how to proceed.

Our Auditors rationale for the increase is based on the belief that the lower fees of £16,170 do not provide a clear link with both a public sector organisation's risk and complexity. For an organization such as Havering, the extent of audit procedures now required mean it will take over 600 hours to complete a quality audit, bringing the audit fee to £55,000

This cost will be met from the Pension Fund. Final costs will not be known until the audit is finalised.

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

**Legal implications and risks:**

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

**Human Resources implications and risks:**

None arise from this report.

**Equalities implications and risks:**

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

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

- ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- iii. foster good relations between those who have protected characteristics and those who do not.

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

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

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

<b>BACKGROUND PAPERS</b>
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None

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# Havering

L O N D O N   B O R O U G H

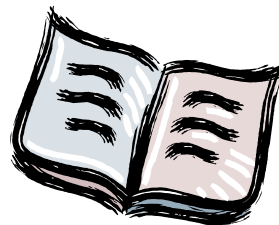
# HAVERING PENSION FUND ANNUAL REPORT MARCH 2020

Pensions Regulator  
Registration Number  
10027841

Financial Services  
Town Hall  
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# Trustee Report

## Foreword to the Annual Report of the Havering Pension Fund for the year ended 31<sup>st</sup> March 2020

As Chairman and on behalf of my fellow members of the Pensions Committee, I am pleased to introduce the 2019/20 annual report and accounts.

The Fund's net assets contracted by £20m or minus 1.55% which compares favourably with the LGPS average return of minus 4.6% over the same period. Investment performance should always be judged over the longer term and here the Fund's investment strategy delivered returns of 5% per annum over the 3 years and 8% per annum over 5 years. This performance should be viewed against the backdrop of the World Health Organisation (WHO) declaration of COVID-19 pandemic on the 11 March 2020. This caused a world-wide public health emergency which triggered a severe downturn in global financial markets reaching its nadir just prior to the financial year end followed by a strong recovery in the subsequent quarter. The economic damage wrought by the pandemic is still being felt but the fiscal and monetary expansion policies pursued by the major economies since have helped drive global equity values in particular upwards. It remains to be seen if that upward momentum can continue and much depends on how successful governments are in combating the virus. Further information on the Fund's investment performance can be found on pages [26-30](#) of this report.

There has been considerable progress during 2019/20 implementing the Fund's Investment Strategy which seeks long term growth with low volatility through diversification across a range of asset classes and managers. Since the last report the Fund has continued to fund its Infrastructure and Private Debt mandates and also appointed a Currency Manager to manage the risk associated with Fund's overseas currency exposure in its income generating non-equity mandates. The Fund also appointed the existing Bond manager to manage an allocation to Multi Asset Credit.

Value of assets held under management (AUM) by the London asset pool known as the London CIV (LCIV) were £452.8m (63%). This Fund has the fifth highest proportion of AUM in the LCIV pool underlining this Committee's commitment to asset pooling which has delivered cumulative cost savings of £0.098m as at 31 March 2020.

During the year the Fund received the results of its 2019 actuarial valuation which provided employer contribution rates for the years 2020 -2023. I'm pleased to report that the funding level increased to 70% up from 66.8% at the last valuation undertaken in 2016. The improvement in funding position is mainly due to strong investment performance over the period. The next valuation will be based on data as at 31 March 2022.

Set out in pages [59-60](#) shows the issues that the Committee considered during the year and any training and development undertaken shown on pages [55-58](#). Also included within this report is an overview of the activities of the Pension Administration team shown on [pages 36-43](#).

2020/21 will see the Fund continue with the development and implementation of its Investment Strategy.

I would like to thank the members of the Committee for their hard work and dedication and the Local Pension Board for the work carried out assisting this Committee ensuring compliance with regulations and legislation relating to governance and administration. My appreciation is also extended to the support provided by Officers and the Fund's Investment Advisors.

I trust that this report is both clear and informative to Fund members and for the general public, and would welcome any comments on the contact via contact details shown on [page 105](#).



**Cllr John Crowder – Chair Pensions Committee**

## INTRODUCTION

The Annual report has been prepared in accordance with the guidance issued by The Chartered Institute of Public Finance & Accountancy (CIPFA) in August 2014 and March 2019.

The London Borough of Havering is an Administering Authority and operates a pension fund (the Fund) on behalf of its employees and pensioners under the provisions of the Local Government Pension Scheme (LGPS) Act 2013 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) regulations 2016.

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

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

### Scheme Details

The LGPS was reformed from 1 April 2014. This changed the way pension benefits are calculated; from a final salary scheme to a career average revalued scheme (CARE). Members that have membership prior to the 1 April 2014, retain the link to the final salary for all their service up to and including 31 March 2014.

Members of the LGPS belong to a scheme which currently provides high quality pension benefits. The scheme is a defined benefit scheme and therefore members' benefits are calculated strictly in accordance with the Regulations and are not subject to changes generally affecting the fund assets. The scheme was contracted in to the State Second Pension as of the 01/04/2016, previously it was contracted out. This means that any pension paid from the Local Government Pension Scheme must be at least equal to the Guaranteed Minimum Pension (GMP) otherwise provided by State Earning Related Pension Scheme (SERPS) to 5 April 1997.

The scheme is open to all local authority employees (except teachers who have their own scheme) and for employees of other eligible bodies. Admitted bodies currently have "closed" membership with one employer choosing to select an open arrangement. The decision on whether membership is "open" or "closed" rests with the incoming employer subject to risk review from the Fund's Actuary and the Committee. All eligible employees who have a permanent or temporary contract of three months or more are contractually enrolled in the Fund from the first day of employment. Any member of the scheme can opt out by completing an opt-out form available from the pension website [www.yourpension.org.uk/handr](http://www.yourpension.org.uk/handr). The opt-out process fully complies with the Automatic Enrolment legislation which is currently being implemented when Scheme Employers reach their staging dates.

A summary of the benefits of the LGPS are shown below. Further details of the specific conditions and detailed benefits can be obtained from the Local Pensions Partnership (LPP), our Fund Administrators and the Pensions website at [www.yourpension.org.uk/handr](http://www.yourpension.org.uk/handr).

The key features of the current scheme are:

- A pension based on final pay and the length of service in the scheme for membership prior to 1<sup>st</sup> April 2014, plus a CARE pension based on 1/49<sup>th</sup> or 1/98<sup>th</sup> of each year actual pensionable pay for membership from 1<sup>st</sup> April 2014.
- Pensionable pay includes all non-contractual overtime plus additional hours for part time staff, with employer contributions being payable on these elements as well.
- The scheme's normal pension age will be the same as the state pension age. Scheme members can find out their state pension age from [www.gov.uk/calculate-state-pension](http://www.gov.uk/calculate-state-pension).



- The ability to provide a tax-free lump sum by commutation of pension.
- Life assurance of three times the member's assumed pensionable pay whilst in service.
- Pensions for spouses, civil partners, eligible cohabiting partners and eligible children.
- An entitlement paid early if a member has to stop work due to permanent ill health.
- Pensions increase in line with CPI.
- Pensions can be paid from age 55, including flexible retirement.

# Overall Fund Management Report

## SCHEME MANAGEMENT AND ADVISERS

Day to day management of the Fund is delegated to the authority's statutory section 151 officer and delivered via oneSource (shared service arrangement between London Borough of Havering, Newham and Bexley).

The Pensions and Treasury team within the oneSource Finance service ensures that members of the Committee receive advice on investment strategy and monitoring of the managers. The team also reviews management arrangements and other issues as appropriate, as well as accounting for the activities of the Fund.

From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council (LCC) who has engaged the Local Pension Partnership (LPP) to undertake their pension's administration. The LPP monitor and manage the pension's employers and employee contributions into the Fund. They also undertake risk management responsibilities in respect of employers in the Fund. The LPP are the main contact point for employees who wish to join the scheme, for advice on procedures and for queries and complaints.

Chief Executive	Andrew Blake-Herbert
Section 151 Officer	Jane West
Pensions Administration Management	Sarah Bryant Director of Exchequer & Transactional Services (oneSource)
Pension Fund Manager (Finance)	Debbie Ford (oneSource)
Fund Administrator	Local Pension Partnership (LPP)
Legal Advisers	London Borough of Havering Legal Services (oneSource) provide legal advice as necessary Bevan Brittan (Specialist Advice)
Fund Actuary	Hymans Robertson LLP
Fund Investment Advisers	Hymans Robertson LLP
Investment Managers	Royal London Asset Management (Investment Bonds) UBS (Property) Ruffer LLP (Multi Asset) (transferred to London CIV 21 June 2016) Legal & General Investment Management GMO Global Real Return (UCITS) from January 2015 London CIV Baillie Gifford Diversified Growth Fund (from 15 February 2015) London CIV Baillie Gifford Global Alpha (from 11 April 2016) London CIV RF Absolute Return (from 21 June 2016) Stafford Capital – Real Assets Infrastructure (from June 18)

JP Morgan – Real Assets Infrastructure (from July18)  
 CBRE – Real Assets Global Property (from August 19)  
 Churchill Asset Management – Private Debt (from December 18)  
 Permira Credit Solutions– Private Debt (from January 19)  
 Russell Investments – Currency risk manager (from December 2019)

Asset Pool Company	London Collective Investment Vehicle (London CIV)
Fund Custodians	State Street Global Services/ Northern Trust
Performance Measurement	State Street Global Services – Performance Services PLC (formerly WM Company)/ Northern Trust Pensions & Investment Research Consultants Limited (PIRC)
Bankers	National Westminster Bank PLC
Auditors	Ernst and Young LLP and Internal Audit (as required)
AVC Providers	Prudential Standard Life

**Employers in the Fund are as follows:**

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

**Scheduled Bodies:**

Havering College of Further Education (Transferred out 1 August 2019)  
 Havering Sixth Form College (Transferred out 1 August 2019)  
 Olive Academy (joined 1 September 2016)

**Secondary Schools:**

Drapers' Academy (Academy from 1 September 2010)  
 Abbs Cross Academy and Arts College (Academy from 1 April 2011)  
 The Brittons Academy Trust (Academy from 1 April 2011)  
 Coopers' Company & Coborn School (Academy from 1 April 11)  
 Hornchurch High School (Academy from 1 August 2011)  
 The Champion School (Academy from 1 August 2011)  
 Hall Mead School (Academy from 1 August 2011)  
 Sacred Heart of Mary Girls' School (Academy from 1 August 2011)  
 St Edward's Church of England School & Sixth Form (Academy from 1 August 2011)  
 Emerson Park Academy (Academy from 1 September 2011)  
 Redden Court School (Academy from 1 September 2011)  
 The Frances Bardsley Academy for Girls (Academy from 1 July 2012)  
 Bower Park Academy (Academy from 1 February 2013)  
 Harris Academy Rainham (Academy from 1 November 2013)  
 Marshalls Park Academy (Academy from 1 April 2017)  
 Royal Liberty Academy (Academy from 1 February 2017)  
 Gaynes Academy (Academy from 1 July 2018)  
 Sanders Academy (Academy from 1 September 2018)  
 NEW: Drapers Management Team (1 May 2019)

**Primary Schools:**

Upminster Junior Academy (Academy from 1 November 2012)  
Upminster Infant School (Academy from 1 November 2012)  
Langtons Junior Academy (Academy from 1 April 2013)  
Oasis Academy Pinewood (Academy from 1 October 2013)  
Drapers' Brookside Junior School (Academy from 1 June 2014)  
Rise Park Infant School (Academy from 1 September 2014)  
Rise Park Junior School (Academy from 1 September 2014)  
Drapers' Pyrigo Priory Primary School (Academy from 1 February 2015)  
Forest Approach Academy (Academy from 1 September 2015)  
Drapers' Maylands Primary School (Academy from 1 September 2015)  
Ravensbourne Academy (Academy from 1 April 2016)  
Drapers Brookside Infants (Academy from 1 September 2016)  
Concordia Academy (Academy from 1 September 2016)  
Benhurst Primary School (Academy from 1 October 2016)  
Scargill Infant Academy (Academy from 1 September 2017)  
Scargill Junior Academy (Academy from 1 September 2017)  
Whybridge Junior Academy (Academy from 1 September 2017)  
Harrow Lodge Academy (Academy from 1 March 2018)  
Hacton Academy (Academy from 1 September 2018)  
Dame Tipping Church of England Primary School (Academy from 1 September 2018)

**Admitted Bodies:**

Sports and Leisure Management Ltd – Fitness and Health  
Sports and Leisure Management Ltd – Charitable Trust  
Breyer Group Repairs (joined 1 March 2014 - pending legal agreement)  
Breyer Group Voids (joined 1 June 2014 – pending legal agreement) ceased 31 May 2019  
Accent Catering Services (joined 1 September 2015)  
Harrison Catering (joined 1 October 2017)  
Lewis and Graves Cleaning (joined 1 August 2018 – pending legal agreement)  
NEW: Caterlink (Life Academy Trust Dame Tipping) (joined 1 September 2019– pending legal agreement)  
NEW: Caterlink (Life Academy Trust Frances Bardsley) (joined 1 September 2019 – pending legal agreement)  
NEW: May Harris (Royal Liberty) – joined 1 January 2020 – pending legal agreement)  
NEW: May Harris (Sanders Academy) – joined 13 January 202 – pending legal agreement)

**The Havering Pension Fund also has the following bodies:****Designated Bodies:****Trust Schools**

Corbets Tey Special School

**Foundation Schools:**

Sanders School  
The Mawney School

**Voluntary Aided Schools:**

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

## RISK MANAGEMENT

### Overall

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

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

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

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

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

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

### Governance Risk

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

### Investment Risk

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

### Fund Managers

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

**Summary of assurance reports received is shown below:**

Fund Manager	Type of Report	Period of Report	Assurance obtained	Reporting accountant
Legal and General	ISAE 3402	1 January 2019 to 31 December 2019	Reasonable Assurance	KPMG
London CIV	LCIV 3 <sup>rd</sup> Party Controls Oversight	31 January 2020		LCIV
London CIV – Baillie Gifford	Reported within the LCIV report	1 May 2019 to 30 April 20	Reasonable Assurance	PricewaterhouseCoopers

Fund Manager	Type of Report	Period of Report	Assurance obtained	Reporting accountant
London CIV - Ruffer	Reported within the LCIV report	1 April 2018 – 31 March 2019	Reasonable Assurance	Ernst & Young
UBS	ISAE 3402	1 January 2018 – 31 December 2019	Reasonable Assurance	Ernst & Young
GMO	ISAE 3402	1 October 2018 – 30 September 2019	Reasonable Assurance	PricewaterhouseCoopers
J P Morgan	ISAE 3402	1 October 2018 – 30 September 2019	Reasonable Assurance on Systems administrator, investor relations & custody	Ernst & Young
CBRE	ISAE 3402	1 January 2019 – 31 December 2019	Reasonable Assurance	KPMG
Churchill	SOC1	1 October 2018 – 30 September 2019	Reasonable Assurance on system administrator	Ernst & Young
Royal London	ISAE 3402	1 October 2018 – 30 September 2019	Control Exception Identified - Qualified Opinion	PWC
Permira	ISAE 3402	1 October 2018 – 30 September 2019	Reasonable Assurance for fund administration, transfer agency and I.T systems	Ernst & Young
Russell Investments	SOC 1	1 <sup>st</sup> October 2018 to 30 <sup>th</sup> September 2019	Reasonable Assurance	Ernst & Young
Stafford	Stafford Internal Control Summary		Stafford monitors administrator follows control process	
<b>Custodian</b>				
State Street	SOC 1	1st October 2018 - 30 September 2019	Reasonable Assurance	Ernst & Young
Northern Trust	SOC 1	1 <sup>st</sup> October 18 to 30 <sup>th</sup> September 19	Reasonable Assurance	KPMG

Where Control exceptions have been identified – the fund managers have undertaken a number of actions to address the control issues identified, which has been set out in their report.

### Benefits Administration

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

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

The main areas of risk are likely to be non-payment or late payment of members' benefits, incorrect calculation of members' benefits, breach of Data Protection or failure to comply with Disclosure of

Information requirements. Another growing area of risk that also needs to be assessed and managed is that of fraud. Participating in the National Fraud Initiative (NFI) is one of the ways in which pension fraud is successfully managed, together with all pension administration staff undertaking fraud awareness training and data protection training.

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

### **Internal Audit Assurances**

From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council (LCC) who have engaged the Local Pension Partnership (LPP) to undertake their pensions administration.

To provide assurance to management, the Local Pension Board and the Audit Committee that risks are being adequately managed. The Council's Internal Auditors undertook a review of the effectiveness of the monitoring arrangements of the Council's contract with LCC, to ensure compliance. This review also assessed the assurances being provided to LCC, by LPP, in relation to the administration of Havering Council's Pension Fund.

As responsibility for the day to day administration of the pension fund has been contracted to LCC, the Council are reliant on the provision of information to give assurances that risks are being adequately managed. In July 2020, Havering received a draft audit report to give assurances that services are being delivered by LPP in compliance with the Pension Regulator Code of Practice 14 and public sector pension's legislation.

LPP received an effective rating for data quality but fell short in other areas. LPP internal audits by Deloitte are ongoing and plans are in place to improve in areas rated as ineffective and requiring improvement. A review of the steps taken by LPP will form part of the contract monitoring undertaken by Havering.

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

### **Risk Register**

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

The Risk Register was compiled with reference to the CIPFA publication '*Managing Risk in the LGPS (2012)*' with input from the Internal Audit, Insurance and Corporate Risk Manager, a Risk Consultant from Zurich Municipal, the Pension Fund Manager (Finance), the then Corporate and Strategic Finance Manager (Audit) and the Pensions Administration Project Manager. The Risk Register was reviewed and updated in November 2018.

A comparison of the Risk Register was then later compared to the updated CIPFA '*Managing Risk in the LGPS*' published in December 2018 to ensure consistency with the guidance.

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

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

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

- Incorrect/inappropriate Investment Strategy – leading to failure to meet strategic objectives by not reducing pension deficit
- Failure of investments to perform in line with growth expectations – potential loss of money
- Failure to comply with legislative requirements – damaging the Authority's reputation and leading to potential litigations
- Inability to manage the Pension Fund and associated services – with negative impacts upon service provision
- Failure to on board or exit employers/members – impacts on cash flow and leads to possible litigations
- Pension Fund payment Fraud – damaging the Authority's reputation and leading to potential financial loss

It should be recognised that it may not be possible to eliminate all risks but accepting and actively managing risk is crucial to the proper governance of the fund.

The Risk Register is a 'live' document and therefore all risks are reviewed continually to ensure that they remain relevant and that the controls are in place to manage risks where feasible. With this in mind it was agreed that from April 2019 the Risk Register will be a standing item on the Local Pensions Board (LPB) agenda for the LPB to consider and agree to any updates.

During 2019 the LPB considered the following risks and agreed to update the risk register accordingly;

- Cyber Security – Failure of all ICT Services
- Oracle Cloud – Pension Fund Accounts system malfunction
- LCIV staff turnover – possibility of undermining investor confidence and consequence of failure to reach funding targets
- Fund Managers - non-compliance to the Code of Transparency and the possibility that the Fund will not be able to disclose full manager fees

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

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

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

### **The Pensions Regulator (tPR)**

The Pensions Regulator conducted an in depth review with the Havering Fund as part of a nationwide review of the governance and administration of the Local Government Pension Scheme (LGPS). The purpose of tPR's review was to understand the challenges that schemes are facing, to monitor how schemes are performing and suggest improvements and relevant actions.



The review took place over a period of six months concluding in July 2019. The findings of the review along with recommended actions was presented to the Pensions Committee on 17 September 2019. The tPR found numerous areas of good practice in the Havering Scheme and gave it a very positive review.

## **Business Continuity Plan**

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

LPP provide services to a number of clients who demand and expect that well planned and tested business continuity arrangements be put in place should the need arise. All BCPs require LPP to inform all customers whenever a specific response plan is activated.

Business continuity arrangements are regularly reviewed and all documentation was reviewed and updated in January 2020.

The overarching objectives of the BCP arrangements are to minimise the disruption to the Pension Service due to an incident that causes an interruption in the normal delivery of the service. To achieve this LPP carry out business impact analyses, assess the likelihood and impact of failure, and use specific or generic plans to manage in the event of a critical failure. LPP work closely with suppliers upon whom they are reliant to ensure their own business continuity processes will support the business in the event of a failure.

The Business Continuity Team comprises key staff who understands all aspects of the business, have the authority to make decisions and fully understand customers' needs and expectations.

All staff are briefed on business continuity arrangements, can be contacted at any time, and are equipped to work remotely should the need arise, at least to a level of resource which would enable to service to provide a minimum service level within 24 hours.

In response to the COVID-19 pandemic, Exchequer and Transactional Services and the wider council all initiated their BCPs successfully.

LPP made a decision to invoke BCP on the 16/03/2020, all southern based staff were informed the offices would remain closed and staff would be working from home until further notice. LPP's Preston office remained open for a further week whilst BCP preparations were completed.

All LPP staff have access to LPP's network via Citrix or VPN, both are encrypted and secure connections. Prior to invocation numerous surveys around IT kit and home working were made to ensure all critical staff had access to the systems.

Since BCP invocation LPP have supplied staff with additional IT kit including new laptops, monitors, desks, chairs and other peripherals to aid them working from home. Staff wellbeing and service delivery is of the upmost importance to LPP and the BCP core team along with the Executive Committee have been keeping in regular contact with staff giving updates and gauging feedback around returning to offices.

Due to the robust nature of both the LPP and Havering BCPs, pension benefits have continued to be made on time and there has been minimal disruption for individuals when contacting Payroll or LPP. Pension Finance staff were provided with laptops to facilitate home working which resulted in no service disruptions to Pensions Finance activities during COVID-19 working restrictions.

# Financial Performance

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

**Pensions Administration** - Since 1 November 2017 Pensions Administration is provided through a delegated arrangement and is supplied by LPP.

**Accountancy and Investment support** - The service that supports the Pension Fund consists of an establishment of 2 full time equivalent posts.

In June 2014 CIPFA produced guidance on how to account for Management costs and then updated it in 2015, in order that improvements in cost comparisons can be made across all funds. Management costs are now split between three cost categories as follows:

## Administrative Expenses

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

	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
Administration & Processing	*770	570	276	500	500	500
Other Fees	5	20	14	20	20	20
Other Costs	26	30	25	30	30	30
<b>TOTAL</b>	<b>801</b>	<b>620</b>	<b>315</b>	<b>550</b>	<b>550</b>	<b>550</b>

\*Includes one off agency costs and GMP reconciliation costs during 2018/19 – an accrual was raised for GMP project which later transpired was not required. 2019/20 actuals reflect a credit of £215k.

## Investment Management Expenses

These costs will include any expenses incurred in relation to the management of Fund assets. Fees are calculated based on market values under management and therefore increase or reduce as the value of investments change.

	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
Fund Manager Fees	3,895	3,900	3,125	3,400	3,400	3,400
Custodian Fees	23	25	27	25	25	25
Performance Measurement services	27	30	17	15	15	15
Transaction costs	*358	*360	23	25	25	25
<b>TOTAL</b>	<b>4,303</b>	<b>4,315</b>	<b>3,192</b>	<b>3,465</b>	<b>3,465</b>	<b>3,465</b>

Please note the following regarding the above figures:

- Management and custody fees are charged according to the fund value; therefore an average figure from the last three years has been applied for 2020/21 onwards
- \*Transaction costs are reflected as a disclosure note in 2019/20 instead of inclusion in the accounting tables.

## Governance and Oversight

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

	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
Financial Services	142	147	144	145	145	145
Actuarial Fees	20	50	101	25	25	25
Audit Fees	16	16	14	16	16	16
Member Training (inc. LPB)	4	10	0	10	10	10
Advisor Fees	71	65	79	65	65	65
London CIV	98	100	96	110	110	110
Local Pension Board	4	5	2	5	5	5
Pensions Committee	38	40	31	40	40	40
Other Fees	26	10	1	10	10	10
<b>TOTAL</b>	<b>419</b>	<b>443</b>	<b>468</b>	<b>426</b>	<b>426</b>	<b>426</b>

Please note the following regarding the above figures:

- Increase in Actuarial fees reflect increased fees for work carried out in relation to the 2019 valuation and additional project work.

<b>OVERALL MANAGEMENT TOTAL</b>	<b>5,523</b>	<b>5,378</b>	<b>3,975</b>	<b>4,441</b>	<b>4,441</b>	<b>4,441</b>
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## Cash Flow Management

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

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

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

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

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

	Bal b/f	Cash Movement 2015/16	Cash Movement 2016/17	Cash Movement 2017/18	Cash Movement 2018/19	Cash Movement 2019/20	Cumulative Cash balance (c/f)
<b>Income</b>							
Predictable		(33.1)	(33.4)	(36.4)	(43.2)	(47.9)	
Unpredictable		(10.4)	(8.8)	(10.2)	(2.4)	(6.2)	
<b>Sub Total</b>		<b>(43.5)</b>	<b>(42.2)</b>	<b>(46.6)</b>	<b>(45.6)</b>	<b>(54.1)</b>	
<b>Benefit Payments</b>							
Predictable		29.4	31.2	31.4	40.0	35.1	
Unpredictable		8.8	11.2	10.2	9.6	9.6	
<b>Sub Total</b>		<b>38.2</b>	<b>42.4</b>	<b>41.6</b>	<b>49.6</b>	<b>44.7</b>	
<b>Total</b>	<b>(7.6)</b>	<b>(5.3)</b>	<b>0.2</b>	<b>(5.0)</b>	<b>4.0</b>	<b>(9.4)</b>	<b>(23.1)</b>

The overall cash balance continues to be positive with, as expected, the unpredictable elements causing the most fluctuations to the cash position.

The cash flow policy adopted by the Fund (reviewed September 2019) sets out that the target cash level should be £6m but not fall below the de-minimis amount of £3m or exceed £8m. Should the cash level fall below the set de minimis of £3m then this should be topped up in the first instance by using investment income. In the event that cash levels rise above the set upper limit of £8m, cash will be invested in the most underweight asset allocation within the investment strategy. The cash flow policy allows the Statutory S151 officer to exceed the thresholds to meet unforeseeable volatile unpredicted payments (e.g. impact on the Pension Fund for restructures). The excess above the threshold of £8m of £15.1m is currently being held to fund elements of the ongoing investment strategy implementation and /or to fund the college merger transfer to the LPFA.

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

Details about the financial assumptions used by the Actuary can be found within the Valuation Report 2019, which is available on the Authority's website and can be found by selecting the link to the [Havering Pension Fund](#) here.

## Contributions to the Fund

The cost of membership:

- Employees pay a tiered contribution based on actual pensionable pay of between 5.5% and 12.5%, or half this rate for 50/50 section members. Employee contribution rates for 2019/20 are set out in the table below:

Contribution Table 2019/ 20			
Band	Actual Gross Pensionable Pay for an employment	Contribution Rate for that employment	
	£	Main Section %	50/50 Section %
1	Up to 14,400	5.50	2.75
2	14,401 to 22,500	5.80	2.90
3	22,501 to 36,500	6.50	3.25
4	36,501 to 46,200	6.80	3.40
5	46,201 to 64,600	8.50	4.25
6	64,601 to 91,500	9.90	4.95
7	91,501 to 107,700	10.50	5.25
8	107,701 to 161,500	11.40	5.70
9	161,501 or more	12.50	6.25

- Employers also pay a contribution towards the pension costs. This amount is decided every three years following an independent actuarial evaluation by the Fund's Actuary. In 2019/20 the contribution rates due from the other employers in the Havering Pension Fund range from 17.5% to 38.2%, including payments of past service contributions. The 2019 valuation has set new employer rates which will apply from 1<sup>st</sup> April 2020.

Further details of the LGPS, including the protections that are in place for benefits accrued prior to 1 April 2014, can be found in the factsheet link [here](#).

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

The Authority is required to make balancing contributions as determined by the Fund's actuary to maintain the solvency of the Fund. The Authority's minimum employer's contribution for employees in 2019/20 was 15.6% of salary plus cash of £12.650m (2018/19 15.6% plus cash of £11.150m). The Authority's annual contribution is reviewed every three years. The valuation based on data as at 31<sup>st</sup> March 2016 set employer contribution rates for 2017/18, 2018/19 and 2019/20.

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

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

All admitted body employers are currently required to purchase a bond or provide a guarantee which protects the Fund against default payments. There are currently seven admitted bodies in the fund

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

Contributing employers	Active Members	Contributions from Members £	Contributions from Employers £
London Borough Havering (including schools – non teaching staff only)	4,770	5,826,136	32,261,183
<b>SCHEDULED BODY:</b>			
The Frances Bardsley Academy for Girls	80	80,538	309,419
The Champion School	67	79,581	302,375
Hall Mead School	78	73,490	282,920
The Brittons Academy Trust	68	61,553	256,105
Coopers' Company & Coborn School	47	58,987	237,329
Redden Court School	58	60,587	228,256
Drapers Academy	46	60,684	221,167
Bower Park Academy	45	50,253	208,262
Royal Liberty Academy	44	47,341	190,270
Ravensbourne Academy (Hornbeam Academy)	58	47,195	188,039
Forest Approach (Dycort School) (Hornbeam Academy)	55	48,482	177,074
St Edward's Church of England School & Sixth Form	49	43,323	174,887
Marshalls Park Academy	47	36,568	174,265
Sacred Heart of Mary Girls' School	52	40,071	172,896
The Chafford School (Harris Academy)	40	44,242	164,563
Emerson Park Academy	54	40,819	155,375
Sanders Academy	33	35,963	148,327
Drapers Pyrgo Primary	76	35,124	139,594
Hacton Academy	64	29,759	127,700
Abbs Cross Academy and Arts College	30	27,752	116,956
The Albany School	55	30,604	113,628
Harrow Lodge Academy (formerly Wykeham School)	53	26,271	106,208

Contributing employers	Active Members	Contributions from Members £	Contributions from Employers £
Oasis Academy (Pinewood)	40	23,054	92,314
Rise Park Junior Academy	42	21,838	90,500
Gaynes Academy	19	19,819	87,626
Scargill Infant Academy (Hornchurch Academy Trust)	28	19,639	83,431
Benhurst Primary	25	18,295	82,965
Drapers Brookside Junior Academy	34	19,743	77,090
Whybridge Junior Academy (Hornchurch Academy Trust)	20	15,988	76,170
Rise Park Infant School	40	16,142	74,462
Drapers Brookside Infant Academy	39	18,641	71,412
Upminster Junior Academy	22	15,407	70,230
Scargill Junior Academy (Hornchurch Academy Trust)	22	12,703	59,015
Upminster Infant Academy	24	12,189	55,707
Drapers Mayland Primary Academy	21	13,776	54,122
Langtons Junior Academy	36	12,620	48,720
Drapers MAT (Management)	5	18,323	48,306
Olive Academy (Birnum Wood)	6	8,901	37,743
Dame Tipping School	15	7,520	32,523
Concordia Academy	12	7,790	22,989
Havering College of Further & Higher Education	0	90,042	398,189
Havering Sixth Form College	0	30,474	118,046
<b>Scheduled Body Total</b>	<b>1,649</b>	<b>1,462,091</b>	<b>5,877,175</b>
<b>ADMITTED BODIES:</b>			
Sports & Leisure Management – Charitable Trust	42	47,908	187,653
Sports & Leisure Management – Fitness and Health	3	2,861	11,825
Breyer Group Repairs	7	14,151	52,406
Accent Catering	6	4,260	23,293
Lewis & Graves	6	2,360	14,091
Harrison Catering	3	1,325	9,201
**Caterlink (Frances Bardsley)	5	0	0
**Caterlink (Dame Tipping)	1	0	0
Breyer Group Voids (ceased)	0	894	3,189
*Citizens Advice Bureau	0	-	9,600
<b>Admitted Bodies Total</b>	<b>73</b>	<b>73,759</b>	<b>311,258</b>
<b>TOTAL</b>	<b>6,492</b>	<b>7,361,986</b>	<b>38,449,616</b>

\*Cessation repayment

\*\* awaiting legal documentation to be completed before contributions are collected

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

Invoices raised, and amounts recovered, since 2012/13 relating to recoverable overpayments of pension to deceased and child members of the scheme are set out in the table below.

Year debt raised	Amount of debt raised£ £	Debt collected£ £	Debt outstanding £
2012/13	8,927	6,837	2,090
2013/14	5,211	1,946	3,265
2014/15	9,901	4,958	4,943
2015/16	10,384	6,195	3,803
2016/17	22,398	12,585	9,813
2017/18	11,499	7,421	4,078
2018/19	25,083	21,603	3,480
2019/20	23,608	18,125	5,474

The Authority has always subscribed to the National Fraud Initiative (NFI). For pensions this involves identifying any deceased members of the LGPS and any pension abatements not already known to the Pensions Administration Team. The most recent NFI exercise was undertaken in September 2019. The LPP Pension Administration Team also have access to 'Tell Us Once' service which is monitored on a weekly basis so any deaths registered via this method are actioned in a timely manner.

The total value of contributions paid into the Fund was £45,811,602 made up of employer contributions of £38,449,616 and employee contributions of £7,361,986. Two employers each paid their contributions late on one occasion. These were due to large scale reorganisation within the employers. This was not considered to be material and no charges were made.



# Investment Policy and Performance Report

## INVESTMENT POLICY

The overall direction of the Fund's Investment Strategy is delegated to the Authority's Pensions Committee. The Committee also oversees the Fund's investment arrangements and publishes its policies on a range of matters relating to investments.

During the year the Fund had in place an Investment Strategy, which consists of a document split into two sections – The Investment Strategy Statement (ISS), produced in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the Myners Compliance Statement.

Over the last year the Pensions Committee had been working towards developing a formal Statement of Investment Beliefs. The Pensions Committee believe that having a clear set of investment beliefs can improve governance by providing a framework for all investment decisions. It will provide a rationale for the decision making process and drive the ISS going forward.

A set of investment Beliefs were adopted at the 10 December Pensions Committee meeting and these are incorporated into the ISS.

**Investment Strategy Statement** - The Statement sets out the London Borough of Havering's policies, in its capacity as Administering Authority, for the investments of the Fund.

The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund's members under the LGPS.

In line with LGPS (Management and Investment of Funds) Regulation 2016 – Regulation 7, the authority's statement must include:

- (a) a requirement to invest money in a wide variety of investments;
- (b) an assessment of the suitability of particular investments and types of investments;
- (c) its approach to risk, including the ways in which risks are to be measured and managed;
- (d) its approach to pooling investments, including the use of collective investment vehicles and shared services;
- (e) a policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisations of investments; and
- (f) a policy on the exercise of the rights (including voting rights) attaching to investments.

The ISS has been prepared by the Fund's Pension Committee having taken advice from the Fund's investment adviser, Hymans Robertson LLP and having regard to guidance issued by the Department for Communities and Local Government (DCLG) now known as the Ministry of Housing, Communities and Local Government (MCHLG).

The ISS, which was last updated by the Committee on 21 November 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate. The Committee completed a full review in January 2020 and the updated version was due to be considered at the 17 March 2020. This meeting was postponed due to COVID-19 working restrictions. The ISS was later agreed at the Pensions Committee meeting held on the 29 July 2020.

**Myners** - The LGPS (Management and investment of Funds) regulations 2016 have removed the requirement to publish compliance against the six Myners principles but the Committee agreed it was best practice to still publish and explain compliance against these principles. This is published with the ISS

when it was published in July 2020. This statement shows the extent to which it complies with guidance as issued by the Secretary of State. Where it does not comply, reasons for non-compliance must be disclosed.

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

### Investment Administration and Custody

The Fund uses the services of an appointed custodian, this was State Street Bank until 30 September 2019 and Northern Trust from the 1 October 2019. They operate a wide range of services but are mainly responsible for the safekeeping and custody of the Fund assets and are responsible for Investment Accounting and Reporting. They ensure that accurate records and certificates of the ownership of stock are maintained and ensure that dividend income and other distributions are received appropriately. They also keep a record of the book costs in the various asset classes and provide a market valuation of the Fund. It is the custodian's records that are used to produce the investment balances in the Fund's accounts.

Fund Manager Performance is reported to the Committee on a quarterly basis. Current reporting arrangements are that one fund manager will attend each meeting. Based on the current fund manager numbers and the planned quarterly committee cycle, then the Committee would see each manager every 24 months. If there are any specific matters of concern to the Committee relating to any manager's performance, arrangements can be made for additional meetings with those managers.

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

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

## ASSET ALLOCATION

The Fund Managers and the market value of assets under their management at 31 March 2020 are as follows:

Manager	Mandate	Value £000	Proportion of Total Fund %
<b>Investments managed directly by London CIV asset pool:</b>			
London CIV	Share Holding	150	0.02
London CIV Ruffer	Pooled Multi Asset Absolute Return	97,738	13.85
London CIV Baillie Gifford	Pooled Global Equities	136,341	19.32
London CIV Baillie Gifford DGF	Pooled Diversified Growth Fund	80,000	11.34
		<b>314,229</b>	<b>44.52</b>
<b>Life Fund Investments aligned with London CIV asset pool:</b>			
Legal & General Investment Management	Passive UK/Global Equities/Emerging Markets	123,850	17.55
	<b>LCIV Total</b>	<b>438,079</b>	<b>62.07</b>
<b>Investments managed outside of London CIV asset pool:</b>			
Royal London	*Active Investment Grade Index Linked Bonds (includes Multi Asset Credit)	70,577	10.00

Manager	Mandate	Value £000	Proportion of Total Fund %
Royal London	*Active Investment Grade Corporate Bonds	53,611	7.60
UBS	Pooled Property	41,067	5.82
CBRE	Pooled Global Property	28,956	4.10
GMO	Pooled Global Real Return Fund Multi Asset	5,038	0.71
Stafford	Pooled Overseas Infrastructure	17,447	2.47
JP Morgan	Pooled Overseas Infrastructure	29,964	3.82
Churchill	Pooled Private Debt	14,026	1.90
Permira	Pooled Private Debt	5,605	0.79
Russell Investments	Currency Overlay Manager	(728)	(0.10)
	Other (cash)	5,116	0.72
<b>Non LCIV Total</b>		<b>267,679</b>	<b>37.93</b>
<b>Total Fund</b>		<b>705,758</b>	<b>100.00</b>

\*Royal London mandate split into two separate mandates during 2019/20

The planned asset allocation and movement in the asset allocations since the last annual report is shown in the following table:

Asset Class	Short Term Target Allocation ISS)	Long Term Target Allocation ISS	Actual Asset allocation March 2019	Actual Asset allocation March 2020	Asset Allocation March 2020 vs ISS Long Term Target
	%	%	%	%	%
<b>Equities</b>	<b>30.0</b>	<b>40.0</b>	<b>37.0</b>	<b>35.6</b>	<b>-4.4</b>
Passive Global Equity	7.5	7.5	7.5	7.0	-0.5
Fundamental Equity	7.5	7.5	7.2	6.1	-1.4
Passive Emerging Markets	-	5.0	3.4	3.8	-1.2
Active Global Equity	15.0	10.0	18.9	18.7	8.7
Other Equity	-	10.0	-	-	-10.0
<b>Multi Asset</b>	<b>42.5</b>	<b>22.5</b>	<b>29.4</b>	<b>25.0</b>	<b>2.5</b>
Absolute Return	15.0	12.5	12.9	13.3	0.8
Diversified Growth	12.5	10.0	12.0	11.0	1.0
Real Return	15.0	-	4.5	0.7	0.7
<b>Real Assets:</b>	<b>8.5</b>	<b>17.5</b>	<b>12.6</b>	<b>15.8</b>	<b>1.7</b>
Property	6.0	10.0	5.8	9.7	0.3
Infrastructure	2.5	7.5	5.1	6.1	1.4
Other Real assets	-	-	1.7	-	-
<b>Bonds and Cash</b>	<b>19.0</b>	<b>20.0</b>	<b>21.0</b>	<b>23.6</b>	<b>1.1</b>
Index Linked bonds	19.0	5.0	18.5	-	-5.0
Multi Asset credit	-	7.5	0.4	17.1	9.6
Private Debt	-	7.5	-	2.7	-4.8
Cash	-	-	2.1	3.9	3.9

Asset Class	Short Term Target Allocation ISS)	Long Term Target Allocation ISS	Actual Asset allocation March 2019	Actual Asset allocation March 2020	Asset Allocation March 2020 vs ISS Long Term Target
	%	%	%	%	%
Currency Hedging	-	-	-	-0.1	-0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0</b>

As mentioned above a full review was completed in January 2020 and the updated version of the ISS was due to be considered at the 17 March 2020 pensions committee meeting. This meeting was postponed due to COVID-19 working restrictions. The ISS was presented to the Pensions Committee for approval at the meeting scheduled for 29 July 20 where the planned asset allocation will change slightly.

In line with the ISS, when the Fund allocation deviates by 5% or more from the strategic allocation, the assets will be rebalanced back to within 2.5% of the strategic asset allocation. In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Committee may decide to suspend rebalancing temporarily.

The Fund has been working to fulfil the Long Term Target Asset allocation targets over the last few years as demonstrated in the above table. The Fund is currently transitioning assets from the short term asset allocation position to the long term asset allocation so the fund will be under or over weight to some asset classes during this time. As the above table shows the Fund is now closer to meeting its long term asset allocation target and is planning to focus on meeting its long term allocation to equities as the next stage of the strategy implementation.

The Fund will continue to have ongoing discussions with the London CIV to progress the transition of assets onto the London CIV platform in accordance with the Ministry of Housing, Communities and Local Government (MHCLG) timelines.

Significant investment changes during 2019/20 were as follows:

- Currency Hedging - Following the appointment of Real Asset managers, and once fully funded, the fund will eventually hold approximately 20% in non-sterling denominated assets. To manage this currency risk the fund appointed Russell Investments. This mandate has been in operation since December 2019.
- Bonds and Cash - Royal London was appointed to manage an allocation to a Multi Asset Credit (MAC) Fund and this commenced from January 2020. The Royal London mandate was also restructured to separate the MAC and index linked bonds from the allocation to Corporate Bonds. The Corporate bonds will continue to be used to fund future capital calls from the Private Debt managers and until this has been completed the target asset allocation will not be truly reflected.
- Following the appointments of a Global Property Manager, Infrastructure and Private Debt Managers the fund has continued to fund these mandates. Capital Calls were made and funded as follows:

Investments made	Mandate	Amount £000's	Funded from
CBRE	Global Property	13.02	GMO
Stafford	Infrastructure	9.13	GMO
Churchill	Private Debt	10.31	Royal London
Permira	Private Debt	5.10	Royal London
<b>Total</b>		<b>37.56</b>	

Further Capital Calls will continue to be met during 2020/21.

- To retain exposure to emerging markets lost through disinvestments with GMO the Fund has also transferred cash to the value of £7.7m to Legal and General Investment Management (LGIM) passive Emerging Market Fund.

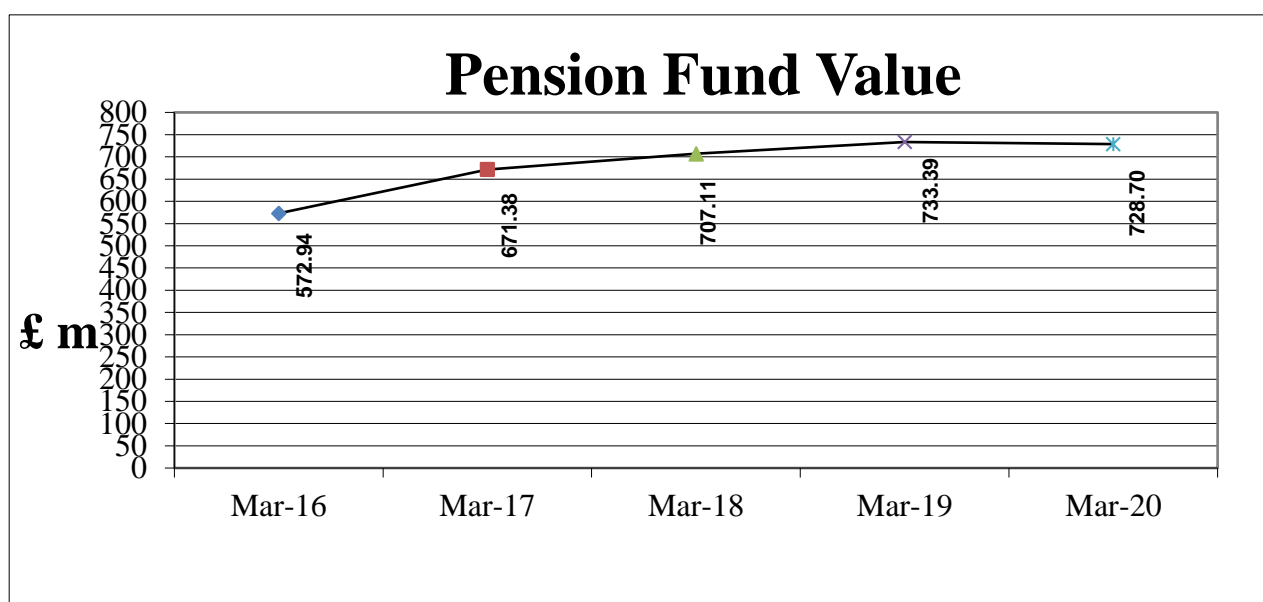
## INVESTMENT PERFORMANCE

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

The Net Assets of the Fund has decreased to **£729m** for 2019/20 from £733m in 2018/19, a net decrease of **£4m**.

The net decrease of **£4m** is compiled of a change in the market value of assets of (£20m, investment income of £10m, net additions of cash of £10m and offset by management expenses of (£4m). Further details are included within the Fund Account and Net Asset Statement included in this report.

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



The Fund uses the services of Performance Measurers (Street Global Services – Performance Services for the period Apr 19 to September 19 and Northern Trust for the period October 19 to March 20) to provide comparative statistics on the performance of the Fund. The performance of the Fund is measured against a tactical and a strategic benchmark.

In 2019/20, the overall return on the Fund's investments was **-1.55%** (2018/19 3.3%). This represented an underperformance of **-1.21%** against the tactical benchmark (2018/19 under performance of -2.3%) and an under performance of **-5.44%** against the strategic benchmark (2018/19 under performance of -3.8%).

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

	<u>1 year to</u> <u>31.03.19</u>	<u>1 year to</u> <u>31.03.20</u>	<u>3 Years to</u> <u>31.03.20</u>	<u>5 years to</u> <u>31.03.20</u>
	%	%	%	%
Fund Return	3.3	-1.55	2.21	4.39
<b>Tactical Benchmark</b>	<b>5.7</b>	<b>0.34</b>	<b>2.62</b>	<b>4.35</b>
Performance	-2.3	-1.21	-0.40	0.03
Fund Return	3.3	-1.55	2.21	4.39
<b>Strategic Benchmark</b>	<b>7.4</b>	<b>3.89</b>	<b>4.50</b>	<b>7.53</b>
Performance	-3.8	-5.44	-2.29	-3.15

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

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

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

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

Asset Class	Investment Manager/ product	Segregated / pooled	Active/ Passive	Benchmark and Target
<b>Equities</b>				
UK/Global Equity	LCIV Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	Legal & General Investment Management	Pooled	Passive	FTSE All World Equity Index
	Legal & General Management	Pooled	Passive	FTSE RAFI All World 3000 Index
	Legal & General Investment Management	Pooled	Passive	FTSE Emerging Markets
<b>Multi-asset</b>				
Multi Asset	LCIV Baillie Gifford (Diversified Growth Fund)	Pooled	Active	Capital growth at lower risk than equity markets
	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5%
	LCIV Ruffer	Pooled	Active	Absolute Return
<b>Real assets</b>				
Property	UBS	Pooled	Active	IPD All balanced (property) Fund's median +
Infrastructure	JP Morgan	Pooled	Active	CPI + 5% p.a (net of fees)
	Stafford			CPI + 5% p.a (net of fees)
Other Real Assets	CBRE Global Property	Pooled	Active	CPI + 5% p.a (net of fees)

Asset Class	Investment Manager/ product	Segregated / pooled	Active/ Passive	Benchmark and Target
<b>Bonds and Cash</b>				
Gilt/Investment Bonds	Royal London	Segregated	Active	<ul style="list-style-type: none"> <li>• 50% iBoxx £ non- Gilt over 10 years</li> <li>• 16.7% FTSE Actuaries UK gilt over 15 years</li> <li>• 33.3% FTSE Actuaries Index-linked over 5 years.</li> </ul> Plus 1.25%*
Private Debt	Churchill Nuveen	Pooled	Active	LIBOR + 4%
	Permira	Pooled	Active	LIBOR + 4%
Currency	Russell	Segregated	Passive	Hedge 100% of EUR,USD and AUD (non-equities)
<b>TOTAL</b>				

\*0.75% prior to 1 November 2015

The following table compares each Fund Manager performance against their benchmark and their performance target for the twelve months ending 31 March 2020:

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark
LCIV Ruffer*	3.2	n/a	n/a
LCIV Baillie Gifford (Global Alpha Fund)*	-1.3	-6.5	5.2
LCIV Baillie Gifford (DGF) *	-8.8	n/a	n/a
LGIM Global Equity	-6.2	-6.3	-
LGIM Fundamental Index	-15.4	-15.5	-
LGIM Emerging Markets	-13.3	-13.2	-
Royal London	1.9	1.1	0.8
UBS	2.0	0.1	1.9
CBRE	10.9	6.5	4.1
GMO (GRRUF)	-14.7	6.2	-19.6
Stafford**	n/a	n/a	n/a
JP Morgan	19.3	6.5	12.0
Churchill	7.2	1.2	5.9
Permira**	n/a	n/a	n/a

Source: State Street (former WM Company), Fund Managers and Hymans

- \*Includes performance from commencement with LCIV.
- \*\*Performance is not shown as they were not invested for entire period but short term performance is included within the overall fund performance

The Fund also uses the services of Pensions & Investment Research Consultants Ltd (PIRC) to provide LGPS universe comparisons against other LGPS funds.

The PIRC Local Authority Universe comprised of 63 funds as at the end of March 2020 with a value of £180 billion.

Universe comparisons can be seen in the tables that follow:

### Universe Fund Performance

Universe data	2019/20					
	1 Year %	3yrs % pa	5yrs % pa	10yrs % pa	20yrs %pa	30yrs %pa
Havering Fund Return	-1.6	2.2	4.4	6.8	4.8	7.8
<b>Universe Average</b>	<b>-4.8</b>	<b>1.9</b>	<b>5.2</b>	<b>6.9</b>	<b>5.5</b>	<b>7.9</b>
Relative Return	-3.2	0.3	-0.8	-0.1	-0.7	-0.1
Universe Ranking (19/20)	13	30	67	54	87	48
Universe Ranking (18/19)	100	87	89	57	93	51

### Universe asset allocations as at March 2020

Universe Data	Average Allocation %	Havering Allocation %	Average Return %	Havering Return %	Havering Percentile Ranking
Equities	51	36	-12.5	-6.3	19
Bonds	21	20	1.7	1.7	36
Alternatives	13	6	7.4	18.9	4
Property	9	10	1.7	5.4	6
Cash	2	4	no data	no data	no data
Diversified Growth	3	25	-5.2	-3.1	44

### PIRC Universe Summary:

- **Last 12 months:**
  - Another year of global political uncertainty but this time was the unprecedented effects of COVID -19.
  - Funds returned an average of -4.8% for the year, perhaps better than was expected by many.
  - The year saw the fastest ever decline in equity markets, albeit from close to record high levels, new lows in oil prices, much of the credit market becoming barely liquid and property and many alternatives difficult to value
  - Equities fared worst - funds with higher exposures to more defensive assets will have performed relatively well.
- **Longer Term Performance**
  - Long term performance of the LGPS remains strong. The average funds delivered a positive return in 24 of the last 30 years and delivered an annualised performance of 7.9% p.a.
  - Equities have driven the strong long term performance.
  - Alternatives have performed strongly due in a large part to the excellent returns from private equity.
- **Asset Allocation**
  - Strategic asset allocation remained broadly static, most of the change to fund weightings came about from the relative market movements over the year.
  - Equities remain the largest allocation within most fund's assets, 80% of this allocation is now invested overseas.
  - Alternatives have increased markedly over the decade. Private equity makes up a half of this allocation with infrastructure increasing in recent years and expected to increase further.



- Within the bond allocation, there has been a continued move from index based towards absolute return mandates.

#### **PIRC Havering Summary:**

- In the latest year the Fund return of -1.6% was well above the average of -4.8% and ranked in the top percentile.
- A lower than average allocation to equities and the good performance of the equity managers led to this result.
- The Fund is structured differently to the average fund:
  - The key difference is the high level of diversified growth and low investment in equities.
  - Last year these differences increased the relative performance by around 0.5%.
  - The latest year result continues the Fund's improving performance relative to the universe average.
  - The Fund is above the average in the last three years and close to the average over the last ten.

#### **Risk and Return**

- Over the last ten years the Fund produced an average return whilst taking slightly lower than average risk.
- Over the last five years the Fund has experienced a much lower level of volatility but has seen returns fall below average.

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

The overriding investment objective for the Fund is to support an affordable and stable level of contributions for the longer term. The current funding approach implies a target investment return of Gilts + 1.8% p.a. over the longer term from the Fund's assets, or c. 3.3% per annum in absolute terms based on yields as at 31 March 2019 (the previous valuation date).

Although returns over the 12 month and 3 year periods have been behind this target to 31 March 2020 (at c. -1.6% and c. 2.2% per annum respectively), the strategy has delivered returns of c. 4.4% per annum over 5 years. Returns over the 5 year period are therefore ahead of the long term (absolute) return deemed sufficient to support an affordable and stable level of contributions. It should also be noted that the performance of the Fund's assets as at 31 March 2020 was heavily impacted by falls in markets during Q1 2020, as a result of the COVID-19 pandemic. A significant market recovery has been observed post quarter-end which has seen a marked improvement in the performance of the Fund's assets.

A key challenge for the Fund is that the value placed on the liabilities has risen by more than the assets since the 2019 actuarial valuation, increasing the funding deficit. The rise in value of liabilities has been driven by a continued period of falling gilt yields, which are now at historically low levels. Our long term outlook for index-linked gilts remains unchanged. We believe that valuations are inflated relative to history and expect that, over the long term, yields will rise from present levels leading to a fall in gilt (and consequently liability) values.

The aim of the investment strategy has been and remains to deliver sufficient and stable returns, but without introducing more investment risk than is necessary. The Fund's approach is to seek long term value and diversification across a broad range of asset classes and managers and the strategy incorporates a lower direct allocation to equity markets than other LGPS funds, with equity exposure being partly provided through multi-asset funds. Whilst over the last 5 years, the Fund's equity and bond allocations have consistently outperformed their respective return targets, performance from the multi-asset allocation has disappointed. However, the capital preservation goals of the multi-asset mandates have been partially highlighted over the 12 months to 31 March 2020, with the LCIV Absolute Return mandate protecting capital and delivering a positive 12 month return.

Implementation of the previously agreed changes in strategy have continued over the year and have seen allocations to multi-asset mandates reduced, albeit the underlying equity exposure has been retained. Allocations to global infrastructure, global property, multi-asset credit and private debt have all

been introduced to the Fund's longer term strategy, offering the prospect of long-term income generation and boosting diversification within the strategy. We have confidence that the level of returns required to support affordable and stable contributions can be (at least) supported by the current investment approach.

### **Responsible Investment and voting activity**

In line with the Fund's current ISS, engagement and voting activity is delegated to the Fund's Investment managers with the Fund reviewing their approach on an annual basis.

The Fund also subscribes to the Local Authority Pension Fund Forum (LAPFF) in recognition of the need to collaborate with other investors to promote best practice on responsible investment and effectively engage with companies.

Shareholder rights are only available to the Fund's investment managers that have segregated equity holdings. Equity holdings held are managed on a pooled basis so the Fund has no shareholder rights in respect of voting.

London CIV - In relation to funds accessed via the London Collective Investment Vehicle (LCIV) (Baillie Gifford mandates and Ruffer), the LCIV operator has responsibility for engaging directly with those investment managers.

Currently, c.62% of the Fund's assets is invested in funds accessed via LCIV.

In support of the Committee's ongoing monitoring requirement, the Fund's Investment Advisor (Hymans) present an annual summary on the responsible investment and voting activities undertaken by the Funds' managers. The annual report for the year ending June 2019 was scheduled to be presented to the Pensions Committee at the 17 March 20 meeting. However this meeting was cancelled due to the introduction of working restrictions due to COVID-19 and whilst the agenda was distributed and published no recommendations were considered. This was later presented at the meeting held on 29 July 2020.

In summary:

- **Equities** - all of the Fund's Equity managers (LGIM, Baillie Gifford, Ruffer and GMO) permitted to invest in equities on behalf of the Fund (with the exception of GMO), are Tier 1 signatories to the UK Stewardship Code and signatories to the United Nations Principles for Responsible Investment (UNPRI). GMO is a relatively new signatory to the UNPRI and has not yet received an assessment (expected 2020). The relevant scores for the managers have achieved strong assessment scores of A or above.
- **Real Assets** – All of the Fund's Real asset managers (UBS, CBRE, JP Morgan and Stafford) are signatories to the UNPRI. The relevant scores for the managers have achieved strong assessment scores of A or above.
- **Bonds** – Royal London is a signatory to the UNPRI. They received a strong assessment score across their full range of investment capabilities of A. Permira and Churchill, the Fund's private Debt managers will be included in the next annual review.

Carbon Risk Exposure- the Fund has not yet undertaken an exercise to measure its exposure to carbon risk by measuring its "carbon footprint". Whilst this exercise has not been undertaken, on a look through basis around 12% of the Funds equity exposure is invested in sectors which are more exposed to carbon invested sectors.

## **London CIV – Responsible Investment**

The LCIV produced a Responsible Investment (RI) Policy in September 2018. Their policy focuses on engagement and accountability and a short summary and extract of the key beliefs and guiding principles is set out below.

The LCIV are committed to ensuring the investments are managed responsibly and have been operating in line with the proposed policy, as follows:

- a) Support for the UK Stewardship Code; LCIV is a Tier 1 signatory to the Code.
- b) LCIV is a signatory to the UNPRI
- c) LCIV encourages investment managers to sign up to the UK Stewardship Code and the UNPRI where appropriate.
- d) LCIV requests investment managers to vote in accordance with the LAPFF or explain their reasons for not doing so. This is monitored on a regular basis.

## **Key Beliefs**

The key beliefs set out in the Policy are as follows:

- a) We believe it is important that we accept and exercise the responsibilities of ownership of all the assets we manage.
- b) We believe that communication and engagement are integral to responsible investment.
- c) We believe that we should hold all our suppliers to account over how they exercise our ownership rights.
- d) We accept that there can be a conflict between the ability to exercise ownership rights when working with other third parties; we will manage this through communication and engagement.
- e) Sometimes assets will be sold over Environmental, Social and Governance (ESG) issues; however the LCIV or its partners will only do this on a case by case basis when considering all the facts.
- f) We believe pre-determined divestment on a rules-based approach is contrary to Government guidance and does not form part of this RI policy.
- g) We believe our voice for responsible ownership is loudest when we own an asset.

## **Guiding Principles**

The Guiding Principles set out in the Policy are:

- a) We should set out principles to which we aspire on subjects that all shareholders can agree:
  - Human Rights
  - Human Slavery
  - Rule of law
  - Environmental transparency
  - Equality
  - Corporate Governance
- b) We will require all Investment managers to have an RI policy if the LCIV is to invest with them.
- c) We will make clear to investment managers our consensus views on these matters and ask them to consider incorporating them into their RI policies.
- d) We will ensure that all investment managers operate their RI policies effectively and hold them to account.

- e) An Investment Managers inability to operate effectively their RI Policy will be a factor in determining if the LCIV continues to use a manager.
- f) We will produce an Annual RI report for the London CIV.

## **COST TRANSPARENCY**

A **voluntary** Code of Transparency into investment management fees and cost was developed and approved by the Scheme Advisory Board (SAB) and launched in May 2017.

The LGPS Code of Transparency was introduced to assist LGPS clients gather cost information in a consistent format.

Fund managers to the LGPS are being encouraged to sign up to this Code to demonstrate their commitment to transparent reporting of costs. As at March 2020, there were over 130 signatories to the code showing on the SAB website.

The Financial Conduct Authority (FCA) wanted to see a more consistent and standardised disclosure of costs and charges for institutional investors and in 2018, they launched the Institutional Disclosure Working Group (IDWG).

In November 2018, the Cost Transparency Initiative (CTI) was launched and became the organisation taking forward the work of the previous IDWG. The CTI is a partnership between the Pensions and Lifetime Savings Association (PLSA), the Investment Association (IA) and the LGPS Scheme Advisory Board.

As of 21st May 2019 a new framework of templates and guidance was released by the CTI. New signatories to the Code with effect from 21st May 2019 will be expected to complete the appropriate template within the CTI framework.

The LGPS template is for listed asset classes only and is valid for use solely by signatories to the Code on or before 21st May 2019 for a maximum 12 month period after which the CTI framework must be used.

The CTI framework will be used to report costs and charges and help assess value for money of any investments. It is compatible with Markets in Financial Instrument Directive (MiFID II) and can be used by Defined Benefit and Defined Contribution schemes.

There are three different templates:

1. The User Summary, which can be used by schemes and advisors to provide a summary of key information across all investments.
2. The Account Template, which is the main cost disclosure template to be completed by the investment manager(s) and covers the majority of assets and product types.
3. The Private Equity Sub-template, which is to be completed by investment managers of closed-ended private equity funds.

The templates provide information on three main categories of investment cost: management fees, performance fees and transaction costs.

Cost transparency is also part of the revised CIPFA accounting standards issued for inclusion in LGPS and administering authorities' statutory annual report and accounts as well as being included in the government's criteria for pooling investments.

### **The Compliance System**

As part of the Code, investment managers are required to complete and submit the template for the relevant mandate (without request) to their LGPS clients on either an annual or quarterly basis as agreed

with their client. In order to streamline the process and make it more widely available, the SAB procured a system from Byhiras which will take the form of online facility intended to:

- Be capable of accepting and storing template data
- Check the timeliness of data submission and report late returns
- Ensure that template data is signed off by managers as 'fair, clear and not misleading'
- Provide a check against the MiFID II total cost amount submitted separately by managers to their LGPS clients

As well as ensuring compliance with the Code the system could be used by LGPS clients to:

- Replace the existing excel format templates provided to them by managers
- View a useful but limited set of onscreen reporting and comparison tools
- Give permission to other LGPS clients or trusted third parties (e.g. their investment advisor) to access and export their template data
- Provide advanced reporting facilities under a phase 2 development subject to the agreement of Code clients.

The template data held within the compliance system will be separate from any other database held by Byhiras and cannot be shared by Byhiras with any third parties for any purpose.

The system will check that fields have been completed with suitable content (i.e. fraction where fraction needed, cells cross calculate to give a number referenced elsewhere in the template). On submitting the templates, the manager is asked to confirm that the template is fair, clear and not misleading (and are directed to the FCA website for more details on that statement). This system went live on **1 April 2020**.

The Fund has been in contact with its fund manager to gather the cost transparency data. The Fund asset managers who are listed as signatories on the SAB website can be seen in the following table:

Fund Manager	Signatory on SAB website	Reporting Period	LGPS (SAB) Template	CTI Main Account Template	CTI Private Equity Template
LGIM Emerging markets	Yes	31 Dec 2019		X	
LGIM All World Equities	Yes	31 Dec 2019		X	
LGIM Equities (RAFI)	Yes	31 Dec 2019		X	
LCIV Ruffer	Yes	31 Mar 2020		X	
LCIV Baillie Gifford (DGF)	Yes	31 Mar 2020		X	
LCIV Baillie Gifford Global Alpha	Yes	31 Mar 2020		X	
GMO	No	31 Mar 2020	X		
Royal London	Yes	31 Mar 2020	X		
UBS	Yes	31 Dec 2019		X	
JP Morgan	Yes	31 Dec 2019			X
Churchill	No	31 Dec 2019	X		
Stafford	Yes	31 Mar 2020			X
CBRE	Yes	31 Dec 2019			X
*Permira	No				
**Russell Investments	Yes		n/a	n/a	n/a

\*Whilst templates have not been received, fee data where apparent has been included in the management fee disclosures for the statement of accounts.

\*\* appointed in Dec 19 so a full year of fee data not available

The London CIV is also a signatory to the Code and the fee templates received for the sub funds on their platform are shown in the table above. London CIV fees are included within the sub funds submission.

The Fund will continue to engage with those fund managers yet to become signatories or submit data using the required templates.

Some of our Fund Managers report data quarterly in arrears and it has not been possible to collect the data in a timely manner for use in the accounts or the annual report covering the same time period, although the data provided does include costs for a full year.

Management Fees and costs identified for inclusion in the accounts, at time of preparation, are £3,147,616.92.

This is the first year of implementation using the CTI templates and as shown in the table above some managers have submitted data using the LGPS template. The compliance system operated by Byrihas was not in place for the same year.

The Fund has not carried out any analysis of the data preferring, to wait until all managers adopt the new templates, a better understanding of interpreting the data is known and the compliance system is in full operation.

Phase II of the compliance system development, will pre-populate the relevant CIPFA table 'Ongoing investment management costs' from the information submitted by managers. This will then be able to be used in our Statement of Accounts. An information pack on how this table links to the data from managers will be available on the SAB website soon.

# Scheme Administration Report

## OVERVIEW

During 2019/20 LPP continued to provide pension's administration to Havering via a dedicated team, predominantly based in the LPP offices in the Havering Town Hall.

In September 2019 responsibility for call handling and responding to emails transferred to the Pensions Helpdesk in Preston. This enables the Havering Team to work more efficiently and improve the turnaround times for cases.

During the period September 2019 to March 2020, across all clients, the LPP Pensions Helpdesk answered an average of 93.57% of calls going into the call centre with the average wait time for a call to be answered being 1 minute 54 seconds.

The Pensions Helpdesk uses customer surveys to record satisfaction levels of call handling, email handling and retirement processing. In March 2020 overall satisfaction levels for call handling were 83.86% across all LPP clients. Satisfaction levels regarding emailed communications was 71.86% with the main criticism being the time taken to respond. LPP are working to reduce their email response times from 5 to 2 working days. Satisfaction levels for retirement cases averaged at 76.14%, which has increased since December following a simplification of forms and increased clarity regarding the process.

LPP continue to review their service and look for efficiencies, including a full review of the administration function and through the use of new technologies and digital solutions.

### Value for Money Statement

A comparison of the 2019 SF3 data supplied to MHCLG shows that the Havering Fund is ranked 21 out of the 32 London Boroughs for value for money in respect of the pension's administration costs. However, the 2019/20 figure included one off project costs and charges for agency staff, a truer reflection of the costs, excluded these additions ranks us at 12<sup>th</sup> in the list of London Boroughs.

We have seen an improvement in the number of cases meeting the key performance indicators which is shown on page 38 and we continue to work with LPP to improve the flow of information and processes to further enhance efficiencies and will be introducing a data improvement plan during 2020/21 which identifies areas for improvement.

Our data quality on common data standards is currently 96.4%. Data quality is fundamental to ensuring an accurate valuation of the Fund's liabilities.

### Summary of Activities undertaken by LPP during the year

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

The key functions of the Pensions Administration Team /LPP are:

- Processing new members of the scheme
- Dealing with requests from members who wish to transfer their pension into or out of Havering's Fund
- Administering death benefits for scheme members
- Bringing pensions into payment on retirement or early retirement
- Providing estimates for members/employers
- Assisting members who wish to increase their pension provision through AVCs or APCs
- Processing leavers with a refund of contributions or deferred benefits
- Maintaining accurate records with changes to members' details
- Reviewing and monitoring third tier ill-health retirements



- Utilising information technology to improve service standards and efficiency
- Supporting outsourcing for both the Authority and other Scheduled Employers such as the Academies
- Ensuring continual data cleansing in preparation for the next scheme valuation
- Continually reviewing all processes and procedures for smart working.
- Training and develop staff to meet service requirements
- Participation in the new scheme governance requirements of The Pension Regulations
- Monitoring and recording Scheduled and Admitted Body contributions for bodies that do not utilise the Havering payroll
- Bi-annual National Fraud Initiative (NFI) compliance

LPP are also working on the Guaranteed Minimum Pension (GMP) reconciliation project which is an exercise to reconcile the records held by HMRC with the Havering pension records. During 2019/20 pensions identified as being underpaid have been corrected and any arrears due have been paid. Additional work is required regarding any pensions identified as being overpaid and these will be finalised during 2020/21. There are also queries raised with HMRC via the portal that have been highlighted as requiring further investigation.

### **LGPS Regulatory Update**

#### **Opposite sex Civil Partnerships**

Opposite sex partnerships were introduced in May 2019 and have been written into the LGPS with effect from 31 December 2019, all systems and documentation has been updated to include this level of benefit.

#### **5 year CARE anniversary (Refunds)**

From April 2019 we reached the 5 year anniversary of the establishment of the CARE scheme which means that we now have members with unclaimed refunds reaching the 5 year point. Current Regulations state that refunds must be paid within 5 years but unfortunately we are not always able to elicit a response from members and late payment could trigger an unauthorised payment if the member does belated request their refund. The LGA are aware that this is a national issue and are seeking to amend the regulations to be consistent with previous LGPS and other public sector schemes which would avoid such refunds benefits being treated as unauthorised payments.

### **Key Uses of Technology**

LPP are supporting the expansion of scheme employers, the Guaranteed Minimum Pension review and publicising the use of member self-service. They continue to look for ways to use technology to improve efficiencies.

Member self-service is live and regularly promoted to scheme members. The benefits of self-service are that it allows members to view their records online and raise any queries in a timely manner; they can also run estimates which takes tasks away from the pension team thus saving valuable time from multiple estimate requests. It also reduces the cost of printing and postage.

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

This website holds information on the LGPS including previous newsletters, a scheme guide and various factsheets. A constant review of the website is in place and takes on board member's feedback.

### **Internal Dispute Resolution Procedure (IDRP)**

Any internal disputes go firstly to the Authority's Actuaries and then to the Pensions Panel which comprises the Director of Human Resources/Organisational Development (OneSource), a representative from Legal and Governance (OneSource) and the Director of Finance (OneSource). The Havering Pensions Projects and Contracts Manager sits on the panel in an advisory role.

There have been no new Independent Dispute Resolution Procedure (IDRP) cases and 8 general customer complaints during 2019/20.



## Whistle Blowing

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

## KEY PERFORMANCE DATA

CIPFA released guidance for capturing Key Performance indicators during 2018/2019. Unfortunately, it is not possible to capture all of the suggested data using current technology. Requirements will be reviewed and where possible steps put in place to be able to report key performance indicators in line with the guidance in future reports. The data below is in line with previous reports.

INDICATOR	What is it an indicator of?	Actual 2019/20 %	Target 2019/20 %	Actual 2018/19 %	Actual 2017/18 %
The percentage of retirements processed within 5 working days	The percentage of retirement payments processed within 5 working days of the employee retiring or receipt of all relevant information.  This indicator measures effectiveness through service delivery and is a standard throughout Local Government	99.44	95	84.96	*Not Available
The percentage of early retirement estimates processed within 5 working days	To produce estimates for early retirements i.e. ill health, redundancies and voluntary retirements within 5 working days of request, normal retirement date or receipt of all relevant information.  This indicator is particularly important to service clusters	99.80	90	81.77	*Not Available
The percentage of notification of deferred benefits within 4 working days	To notify members who have left their job (or one of their jobs) of the deferred benefits that they have accrued at the point of leaving within 4 working days of receipt of all relevant information.	98.21	90	86.17	*Not Available
The percentage of 'Transfers In' actuals processed within 4 working days.	The percentage of transfers in with the member's record updated with the transferred in information	97.70	95	88.68	*Not Available
The percentage of 'Transfers Out' actuals processed within 5 working days	The percentage of transfers out paid to the new pension provider	98.46	90	81.25	*Not Available
The percentage of 'death' notifications written out to within 5 days of receipt of all information received.	The percentage of deaths with notification of benefits	100	90	82.41	*Not Available
The percentage of joiners processed within 3 working days of information received	The percentage of joiners' records set up on the Pensions Administration System	99.85	95	95.76	*Not Available

\*During 2017/18 the pension's team were working at 5 FTE when they should be at 9.1 FTE, due to difficulty in recruiting experienced pensions administrators. During this time the recording of KPI's was not maintained. This led to the decision to move the pension's administration service into a delegated arrangement with LPP. It was agreed at transfer for LPP not to record KPI's until April 2018 as there was a considerable volume of backlog work.

Targets were set in line with CIPFA and London Centre of Excellence, cross councils benchmarking. They were reviewed by the Pension Fund Manager and Local Pensions Partnership as part of the Delegated Arrangement. The Pension Service Local Performance Indicators represent the main core of the administration team output but do not cover all the calculations and processes carried out.

The data used to report the performance indicators is supplied by LPP from their Case Management System (CMS). CMS is a bespoke workflow system acting as a comprehensive management information tool. It provides detailed analysis of all cases processed/outstanding on a daily basis.

The system builds in Havering's agreed SLA's and work is managed and allocated based on a day count basis from date received. The system monitors caseload volumes and performance against SLA's. It also allows LPP to track error/rework rates; ensuring quality is maintained throughout the administration function. It provides easily accessible and reportable information enabling monitoring, audit, performance management and annual review reporting capabilities.

The system allows LPP to track, case completion rates against agreed SLA's, cases completed early, elapsed times as well as produce data on why cases are pending, for example awaiting information from a third party or scheme employer.

The Havering Pensions Team receives monthly reports and monitors the cases completed against the reported performance.

Havering will be introducing a data improvement plan during 2020/21 which will identify key work streams and priorities to help improve both the quality of data and the administration performance.

The indicators do not include record keeping and data maintenance tasks covered by LPP, which are required to correctly administer a member's benefit and also have a direct impact on the triennial valuation.

Annual Benefit Statements are required to be sent to active and deferred scheme members by 31<sup>st</sup> August each year. This was achieved successfully in 2019. The administering authority and LPP continue to promote the use of Member Self Service to reduce printing and postage costs.

Over the past 5 years trends on the key activities within the administration team are detailed below.

<b>Service Item</b>	<b>2015/16 Cases</b>	<b>2016/17 Cases</b>	<b>2017/18 Cases</b>	<b>2018/19 Cases</b>	<b>2019/20 Cases</b>
Retirements processed	279	370	257	512	533
Early retirement estimates processed	827	872	*Not Available	543	580
Notification of Deferred Benefits	351	348	241	947	727
Transfers In Actuals processed	35	25	45	27	87
Transfers Out Actuals processed	29	59	55	40	65
Death notification written out	224	193	157	183	273

Service Item	2015/16 Cases	2016/17 Cases	2017/18 Cases	2018/19 Cases	2019/20 Cases
New LGPS joiners processed	1,004	1,009	1,093	1,792	1,942
Refunds	148	123	113	678	691
TV Out & Inter Fund Adjustment (IFA ) Quote	98	77	*Not Available	164	233
TV In & IFA Quote	254	69	*Not Available	196	276
<b>Total Cases per year</b>	<b>3,249</b>	<b>3,145</b>	<b>1,961</b>	<b>5,082</b>	<b>5,407</b>

### Staff Resource

Since November 2017 the Pensions Administration service has been provided by LPP, prior to this date it was part of oneSource Exchequer and Transactional Services. To ensure the effective delivery of the contract a Pensions Projects and Contracts Manager has been appointed from 1 November 2017.

LPP currently has 3.5 FTE working on Havering administration with a ratio of 1 member of staff to 5642 fund members. The team completed a total of 6572 cases including other contractual cases outside of the top 12 for the period 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020 which is an average of 1877 cases per staff member.

### Local Government Funding Cuts

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

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

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

### Academies and Outsourcing

There were no academy conversions during 2019/20. Academies need continual support and monitoring.

Outsourcing of services within the Scheme's authority employers continues to add further demand and therefore an Employer Risk Manager has been put in place via LPP to ensure all admission agreements and bonds are in place for the service providers. The level of planned and actual outsourcing by Academies is still on-going and likely to continue to grow. This adds to the work of the Employer Risk Manager who provides the necessary data for the Actuaries to calculate Bonds and employers' rates. If the outsourced function is granted Admitted Body Status this drives further unplanned work to separate out the scheme employers and causes a further administrative burden as the number of scheme employers increases.

The growth in Scheduled and Admitted Body scheme employers also increases the support and communications requirements for LPP and the Havering Pensions Administration Team. Introduction meetings are offered to all new bodies to support their entry into the scheme with on-going meetings and support as and when required.

To support employers and services the Fund has produced an **Employer Outsourcing Guide**, this provides an overview of the pension implications and the procedures to follow when LGPS scheme employers outsource services from the organisation. This document is available on the Pension website by selecting the following link: <http://www.yourpension.org.uk - select Employer Guides>

**Table 3 Unit costs per member**

	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Investment Management Expenses</b>					
Total Cost (£'000)	2,796	3,003	3,346	4,303	*3,192
Total membership (nos)	18,119	18,514	19,193	19,734	19,076
Cost per member (£)	154.31	162.20	174.33	218.05	167.33
<b>Administration</b>					
Total Cost (£'000)	512	562	532	**653	***315
Total membership (nos)	18,119	18,514	19,193	19,734	19,076
Cost per member (£)	28.26	30.36	27.72	33.09	16.51
<b>Oversight and Governance Costs</b>					
Total Cost (£'000)	355	360	426	419	468
Total membership (nos)	18,119	18,514	19,193	19,734	19,076
Cost per member (£)	19.59	19.44	22.20	21.23	24.53
<b>Total cost per member</b>	<b>202.16</b>	<b>212.00</b>	<b>224.25</b>	<b>272.37</b>	<b>191.86</b>

source: SF3 data as at 31 March 2018

\*Prior year's figure includes incorrect inclusion of transaction costs

\*\*Includes an incorrect sundry creditor

\*\*\* Includes an incorrect un-cleared sundry creditor from 2018/19.

## Confidentiality of Personal Data

LPP has developed a robust control framework to help ensure that all the requirements of the GDPR are met in a timely manner and which will also serve as a defence in the event of litigation. LPP became fully GDPR compliant ahead of the 25th of May 2018 deadline and provided all clients and employers with the relevant paperwork to aid their own compliance.

We also aim to adhere to a code of conduct which would bring the additional benefit of:

- improving transparency and accountability - enabling individuals to distinguish the organisations that meet the requirements of the law and they can trust with their personal data
- providing mitigation against enforcement action
- improving standards by establishing best practice
- investigate innovative solutions to high risk areas including data minimisation and pseudonymisation

## Accuracy of Data

Each year, following year-end processing, LPP raise queries with Havering Scheme Employers such as missing joiners, leavers, change of hours and pay queries. In most instances the queries are reducing year on year and they continue to identify errors and educate employers. LPP have improved their templates and literature, following feedback from employers, to ensure the data supplied by Havering employers is accurate with an aim to improve the overall data quality position.

During 2019/20, LPP tracked the TPR scores on a quarterly basis. We continue to develop an ongoing program of work to maintain/improve data scores to above the targets outlined below.

**London Borough of Havering**

	Target	Q2 2019/20	Q3 2019/20	Trend	Q4 2019/20	Trend
<b>Common data score</b>	95%	98.0%	96.6%	-1.4%	96.4%	-0.2%
<b>Conditional data score</b>	90%	93.0%	92.1%	-0.9%	92.2%	0.1%

**Fund Membership Data**

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

	As at 31 March 2020	As at 31 March 2019	As at 31 March 2018	As at 31 March 2017	As at 31 March 2016
Contributors	6,492	6,717	6,562	6,217	6,526
Deferred pensioners	6,410	6,544	6,384	6,196	5,709
Pensioners and Dependants	6,174	6,473	6,247	6,101	5,884
	<b>19,076</b>	<b>19,734</b>	<b>18,193</b>	<b>18,514</b>	<b>18,119</b>

A contributing factor to the decrease in membership numbers in 2019/20 relates to the transfer out of Havering Sixth Form College and the Havering College of Further & Higher Education.

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

	As at 31 March 2020	As at 31 March 2019	As at 31 March 2018	As at 31 March 2017	As at 31 March 2016
Ill Health	3	7	3	6	11
Early Retirements	0	0	0	0	0

The age profile of members within five year bandings for the year ended 31 March 2020 is as follows:

AGE BANDS	ACTIVES	DEFERREDS	PENSIONERS (OWN RIGHT)	DEPENDANT PENSIONS	TOTAL BY AGE BAND
0-4	0	0	0	1	1
5-9	0	0	0	5	5
10-14	0	0	0	6	6
15-19	33	1	0	22	56
20-24	171	45	0	10	226
25-29	296	220	0	1	517
30-34	469	455	0	1	925
35-39	654	525	0	2	1,181
40-44	818	628	0	3	1,449
45-49	1,047	1,042	7	13	2,109
50-54	1,168	1,369	8	27	2,572
55-59	1,059	1,210	230	22	2,521
60-64	590	583	769	46	1,988
65-69	155	89	1,290	83	1,617
70-74	30	7	1,195	113	1,345
75-79	2	0	834	142	978
80-84	0	0	556	159	715
85-89	0	0	347	159	506
90-94	0	0	185	100	285
95-99	0	0	43	25	68
100-104	0	0	3	2	5
105-109			1	0	1
<b>TOTAL</b>	<b>6,492</b>	<b>6,174</b>	<b>5,468</b>	<b>942</b>	<b>19,076</b>

# Actuarial Report

## London Borough of Havering Pension Fund ("the Fund")

### Actuarial Statement for 2019/20

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

### Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated December 2019. In summary, the key funding principles are as follows:

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

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

### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £733 million, were sufficient to meet 70% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £320 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and likelihood measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2022 were set in accordance with the Fund's funding policy as set out in its FSS.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable

membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

### Assumptions

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

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	3.3%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model with an allowance for smoothing of recent mortality experience and long term rates of 1.25% p.a for males and females. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.6 years	23.7 years
Future Pensioners*	22.4 years	25.2 years

\*Aged 45 at the 2019 valuation

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

### Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time



Steven Law FFA

For and on behalf of Hymans Robertson LLP

16 April 2020

Hymans Robertson LLP

20 Waterloo Street, Glasgow, G2 6DB



## PENSION FUND - FUNDING

Details about the financial assumptions used by the Actuary can be found within the Valuation Report 2019, which is available by selecting the link here [Havering Pension Fund](#).

The Fund's Actuary (Hymans Robertson) carried out a triennial valuation during 2019/20 based on data as at 31 March 2020. The main purpose of the valuation is to calculate the funding position within the Fund and set employer contribution rates for the following three years and the results of the 2019 effecting employer contribution rates from 1 April 2020.

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

A comparison of funding levels can be seen below:

### Summary

Ongoing funding basis	31 Mar 2013	31 Mar 2016	31 Mar 2019
	£m	£m	£m
Assets	461	573	733
Liabilities	752	857	1,054
<b>Surplus/(deficit)</b>	<b>(291)</b>	<b>(284)</b>	<b>(321)</b>
Funding level	61.2%	66.8%	70.0%

The improvement in funding position is mainly due to strong investment performance over the periods. The next valuation will be based on data as at 31 March 2022.

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

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

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

## GOVERNMENT ACTUARY DEPARTMENT (GAD) – SECTION 13 PUBLIC SERVICES PENSIONS ACT 2013

GAD was appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the 91 funds in the Local Government Pension Scheme in England and Wales ('LGPS' or 'the Scheme'), based on the results the 2016 Valuation.

Section 13 (4) requires GAD to report on whether four main aims had been achieved, using a variety of measures within the following categories:

- a. **Compliance** – to confirm the actuarial valuations has been carried out in accordance with the scheme regulations.
- b. **Consistency** – to confirm the actuarial valuation has been carried out in a way that is not inconsistent with other valuations.
- c. **Solvency** – to confirm employer contributions is set at an appropriate level to ensure the solvency of the pension fund, and
- d. **Long Term cost efficiency** – to confirm employer contributions are set at a level to ensure, over the long term, that they meet current benefit accruals and include an adjustment to the rate for any surplus or deficit.

Havering received an amber flag against the insolvency measure (item c above). This measure highlights possible risks to a fund as a result of assets being significantly lower than liabilities, where liabilities are those estimated on the SAB standard basis. A fund in deficit may need to pay additional contributions in order to meet the liabilities that have already been accrued.

Our actuary has carried out extensive testing of our funding plans and is comfortable our investment and contribution strategies are robust and fit for purpose.

An amber flag is a potential issue that has been recognised but in isolation would not contribute to a recommendation for remedial action.

GAD S13 report based on 2019 results is not expected to be published until 2021.

# Governance

## GOVERNANCE ARRANGEMENTS

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

The Pensions and Treasury team within the OneSource Finance service ensures that members of the Committee receive advice on investment strategy and monitoring of the managers. The team also reviews management arrangements and other issues as appropriate, as well as accounting for the activities of the Fund.

The membership of the Pensions Committee reflects the political balance of the Council and following the Local Elections held in May 2018 the structure of the Committee, at the time of publication of this report, are as follows:

### **Conservative Group:**

Cllr John Crowder (Chair)  
Cllr Osman Dervish (From May 2019)  
Cllr Jason Frost (From May 2019)

### **Residents Group**

Cllr Stephanie Nunn

### **North Havering Residents' Group**

Cllr Martin Goode (Vice Chair March 2019)

### **Upminster & Cranham Residents' Group**

Councillor Ron Ower

### **Labour Group**

Keith Darvill (May 19)

### **Other**

Union Members (Non-voting) – Derek Scott (Unison), Andy Hampshire (GMB)  
Admitted/Scheduled Body Representative (voting) (currently vacant)

From March 2019 Cllr Viddy Persaud replaced Cllr Melvin Wallace



**Cllr John Crowder**  
Chair

Conservative Group



**Cllr Martin Goode**  
Vice chair

North Havering



**Cllr Jason Frost**  
Conservative  
Group



**Cllr Osman Dervish**

Conservative Group



**Cllr Stephanie  
Nunn**

Residents' Group



**Cllr Ron Ower**

Upminster &  
Cranham  
Residents's Group



**Cllr Keith Darvill**

Labour Group

The terms of reference for the Committee are:

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

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

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

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

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

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

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

**Employer representatives:**

Denise Broom – Life Academy Trust (from December 18)

David Holmes – Havering College of Further and Higher Education (left August 19)

Andrew Frater – Empower Learning Academy Trust - Hall Mead School (from January 2020)

**Scheme Member representatives:**

Mrs Anne Giles

Mr Mark Holder

**The Local Pension Board produces a separate annual report and this available on the Authority's website by selecting the link here <http://www.yourpension.org.uk> - select Employer Guides**

## GOVERNANCE COMPLIANCE STATEMENT

Under Regulation 55 of the LGPS Regulations 2013, administering authorities are required to prepare, publish and maintain statements of compliance against a set of best practice principles on scheme governance and stewardship.

- (1) An administering authority must prepare a written statement setting out —
  - (a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-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 or sub-committee meetings,
    - (iii) whether such a committee or sub-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 the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
  - (d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).
- (2) An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph.
- (3) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.
- (4) An administering authority must publish its statement under this regulation, and any revised statement.

Under Regulation 106 of the Local Government Pension Scheme (LGPS) (Amendment) (Governance) Regulations 2015 required Administering Authorities to establish a Local Pension Board (LPB) by no later than 1 April 2015.

- (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

The Governance Compliance Statement was amended in November 2018 to reflect changes to membership of the Committee.

The Governance Compliance statement includes:

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

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

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

The Governance Compliance statement is also available on the Authority's website by selecting the link here [Havering Pension Fund](#).

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

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

## TRAINING AND DEVELOPMENT STRATEGY

The Pensions Regulator Code of Practice which came into force on 1 April 2015 includes a requirement for members of the Pension Committee/Local Pension Board (LPB) to demonstrate that they have an appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Committee/LPB.

LGPS (Amendment) (Governance) Regulations 2015 states that Administering Authority must have regard to guidance issued by the Secretary of State. Guidance was issued by the then Shadow Scheme Advisory Board in January 2015 and states that the Administering Authority should make appropriate training available to assist LPB members in undertaking their role. It was always the plan to adopt a training strategy that will incorporate Pension Committee member training with LPB members to keep officer time and training costs to a minimum.

A joint training strategy has been developed and formally sets out the arrangements the Fund will take in order to comply with the principles of the CIPFA Code of Practice.

The Pension Committee fully supports the intentions behind CIPFA's Knowledge and Skills Code of Practice and has agreed to formally adopt its principles. CIPFA's Knowledge and Skills Framework covers six relevant areas of knowledge for members of decision making bodies, namely:

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

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

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

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

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

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

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

### **Provision of Training**

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

Associated training and development will be given when required which is linked to the Pension Fund meeting cyclical coverage.

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



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

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

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

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

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

The Head of Pensions and Treasury, Pension Fund Manager and/or the Pension Fund Accountant and the Pensions Projects and Contracts Manager attend quarterly forum meetings with peers from other London Boroughs which gives access to extensive opportunities of knowledge sharing and benchmarking data.

Officers within onesSource Pensions teams also benefit from sharing of best practice across its partner authorities.

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

Training logs are maintained and have been recorded since the election in May 2018 to demonstrate continuous development and training during their full term of elected office on the Pensions Committee. Attendance and coverage is summarised in the following table:

**PENSIONS COMMITTEE MEMBER TRAINING (Election May 2018 – 31 March 2020)**

<b>DATE</b>	<b>TOPIC COVERED</b>	<b>LOCATION</b>	<b>KSF</b>	<b>COST</b>	<b>ATTENDED BY</b>
<b>3 July 2018</b>	Peter Worth – Understanding the role of the Pensions Committee	Town Hall	KSF 1	Paid for by OneSource – to be recharged to Havering	Cllr John Crowder (Chair) Cllr Melvin Wallace (Vice-Chair) Cllr Roger Ramsey Cllr Martin Goode (also Chair Audit cttee) Cllr Ron Ower Cllr Matt Sutton (also Vice-Chair Audit cttee)
<b>24 July 2018</b>	Officer - New Councillor Induction • plus Hymans “A brief Guide to the LGPS’	Town Hall	ALL	Officer Time	Cllr Ray Morgon Cllr Ron Ower
<b>24 July 2018</b>	Officer - New Councillor Induction – • distribution of slides only	Town Hall	ALL	Officer Time	Cllr Matt Sutton Cllr Martin Goode
<b>24 July 2018</b>	Officers - Pension Fund Accounts 17/18 Briefing covered:  • Overview of the Pension Fund Accounts	Town Hall – prior to Pensions Committee meeting	KSF 2	Officer Time	Cllr John Crowder (chair) Cllr Melvin Wallace (vice- chair) Cllr Martin Goode Cllr Ron Ower Cllr Ray Morgon Cllr Jan Sargent Cllr Gerry O’Sullivan Cllr David Durrant Cllr Viddy Persuad (part)

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
20 August 2018	Hymans – Direct Corporate Lending, covered: <ul style="list-style-type: none"> <li>• What is Direct corporate Lending</li> <li>• Why we are investing in this asset class</li> <li>• How to get exposure</li> </ul> bFinance - covered the manager selection process	Town Hall – Prior to Special Pensions Committee meeting	KSF 3 KSF 5	Part of contract	Cllr John Crowder (chair) Cllr Melvin Wallace (vice-chair) Andy Hampshire (GMB union-employee rep)
15 November 2018	SPS Conferences Local Authority - Pension Fund Investment Strategies: <ul style="list-style-type: none"> <li>• Topical Issues</li> <li>• Income from Property &amp; Infrastructure- planning for cash flow negativity</li> <li>• Management of Assets – improving cost transparency</li> <li>• LGPS Perspectives -current issues</li> </ul>	Le Meridien Hotel, Picadilly, W1	KSF 5	Free	Cllr Stephanie Nunn
11 December 2018	Officer - New Councillor Induction	Library	ALL	Officer Time	Cllr David Durant
11 December 2018	Hymans-ESG :Introductory Training: <ul style="list-style-type: none"> <li>• Introduction</li> <li>• Regulation</li> <li>• Application and Action</li> <li>• Next steps: establishing a set of beliefs</li> </ul>	Town Hall – Prior to Pensions Committee meeting	KSF 1 KSF 4 KSF 5	£1,500	Cllr John Crowder (chair) Cllr Melvin Wallace (vice- chair) Cllr Ron Ower Cllr Stephanie Nunn Cllr David Durrant Cllr Matt Sutton (part)

<b>DATE</b>	<b>TOPIC COVERED</b>	<b>LOCATION</b>	<b>KSF</b>	<b>COST</b>	<b>ATTENDED BY</b>
<b>9 July 2019</b>	Officer – New Councillor Induction	Town Hall	ALL	Officer time	Cllr J Frost
<b>11 July 2019</b>	Officer – New Councillor Induction	Town All	ALL	Officer time	Cllr K Darvill
<b>11 July 2019</b>	Hymans - Managing Currency Risk	Town Hall	KSF 3 KSF 4 KSF 5	Hymans Fee	Cllr M Goode Cllr S Nunn Cllr R Ower Cllr J Frost Cllr J Crowder
<b>18 July 2019</b>	Officers - Pension Fund Accounts 18/19 Briefing covered: Overview of the Pension Fund Accounts	Town Hall	KSF 2	Officer Time	Cllr M Goode Cllr R Ower Cllr O Dervish Cllr V Persaud (Audit)
<b>23 July 2019</b>	Hymans - Managing Currency Risk – training slides distributed for non- attendees on 11 July 2019		KSF 4 KSF 5	Officer Time	Slides Distributed to Cllr K Darvill Cllr O Dervish Andy Hampshire (GMB rep)
<b>23 July 2019</b>	Officer – New Councillor Induction	Town Hall – EF14	All	Officer Time	Cllr O Dervish
<b>16 September 2019</b>	Officer –Induction training	LBH Offices	ALL	Officer time	Derek Scott (UNISON Rep)

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
<b>17 September 2019</b>	Hymans – Multi Asset Credit: <ul style="list-style-type: none"> <li>• Debt markets overview</li> <li>• What is Multi Asset Credit (MAC)</li> <li>• Absolute Return Bonds (ARB)</li> <li>• Current Yields</li> <li>• Comparison of MAC vs ARB</li> </ul>	Town Hall - As part of the Pensions committee meeting	KSF 3 KSF 4 KSF 5	Hymans Fees	Cllr J Crowder Cllr M Goode Cllr O Dervish Cllr J Frost Cllr R Ower Cllr K Darvill
<b>24 October 2019</b>	Officer – New Councillor (sub) Induction	LBH Offices	ALL	Officer Time	Cllr L Van den Hende
<b>12 November 2019</b>	A Guide to the LGPS –sent via email	LBH Offices	ALL	Officer Time	Cllr J Crowder Cllr M Goode Cllr O Dervish Cllr J Frost Cllr R Ower Cllr S Nunn Cllr K Darvill 2 nominated substitutes: Cllr R Morgan Cllr L Van den Hende
<b>13 November 2019</b>	CIPFA – Annual Pensions Conference	The London Stock Exchange	ALL	Free Place	Cllr J Crowder
<b>10 December 2019</b>	Hymans Valuation 2019 training presentation	LBH Offices	KSF 6	Hymans Fee	Cllr J Crowder Cllr D O'Flynn (sub) Cllr S Nunn Cllr K Darvill

### Attendance at Pensions Committee meetings:

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

The Committee met a number of times during 2019/20 and the report coverage and attendance at those meetings are shown in the following table:

DATE	TOPIC	ATTENDED BY
24 July 2019	<ul style="list-style-type: none"><li>Noted Pension Fund Performance Monitoring for the quarter ending 31 March 2019, received presentations from the Bonds Manager (Royal London)</li><li>Noted Pension Fund Accounts for the year ending 31 March 2019.</li><li>Agreed the Pension Fund Annual Report for the year ending 31 March 2019.</li><li>Agreed the Business Plan/Annual Report on the work of the Pensions Committee 2018/19</li><li>Noted the Policy for overpayments of pensions following death of a pensioner or dependant member</li><li>Approved the proposed Work Programme for the year to March 2019.</li></ul>	Cllr John Crowder (chair) Cllr Martin Goode (vice chair) Cllr Osman Dervish Cllr Jason Frost Cllr Stephanie Nunn Cllr Ron Ower Cllr Keith Darvill
24 July 2019 (Special meeting)	<ul style="list-style-type: none"><li>Strategic Rationale for Managing Currency Risk and appointment of Currency Hedge Manager</li></ul>	Cllr John Crowder (chair) Cllr Martin Goode (vice chair) Cllr Osman Dervish Cllr Stephanie Nunn Cllr Ron Ower Cllr Martin Goode Cllr Keith Darvill
17 September 2019	<ul style="list-style-type: none"><li>Noted Pension Fund Performance Monitoring for the quarter ending 30 June 2019, received presentations from the Funds Property Manager (UBS)</li><li>Noted the Good Governance report in the LGPS by Hymans Robertson</li><li>Agreed with the development of the Investment Strategy to incorporate an allocation to Multi Asset Credit and agreed to use Royal London to implement the mandate.</li><li>Noted the Local Pension Board Annual report for the year ending 31 March 2019</li><li>Noted the conclusion of the Pensions Regulator in Depth engagement review and resulting actions</li><li>Considered and agreed the LCIV boards in respect of their pension scheme</li></ul>	Cllr John Crowder (chair) Cllr Osman Dervish Cllr Jason Frost Cllr Stephanie Nunn Cllr Keith Darvill

DATE	TOPIC	ATTENDED BY
<b>12 November 2019</b>	<ul style="list-style-type: none"> <li>Noted the views of officers on the performance of the Fund's Custodian for the period to September 2019.</li> <li>Noted the views of officers on the performance of the Fund's Actuary for the period to September 2019.</li> <li>Noted the views of officers on the performance of the Fund's Investment Advisor for the period to September 2019.</li> <li>Considered and agreed changes as necessary to the Governance Compliance Statement</li> <li>Noted results of the Whistle Blowing Annual review</li> </ul>	Cllr John Crowder (chair) Cllr Martin Goode Cllr Osman Dervish Cllr Jason Frost Cllr Stephanie Nunn Cllr Keith Darvill Cllr Linda Van den Hende (sub for Cllr Ower)
<b>10 December 2019</b>	<ul style="list-style-type: none"> <li>Noted the Pension Fund Performance Monitoring for the quarter ending 30 September 2019, received presentations from one of the Infrastructure Manager (Stafford Capital).</li> <li>Agreed to the admission of Essex Cares to the Havering Pension Fund</li> <li>Agreed to the admission of Lewis &amp; Graves to the Havering Pension Fund</li> <li>Agreed the assumptions proposed by the Actuary to set employer contributions rates and agreed the Funding Strategy Statement</li> <li>Agreed the next steps in respect of developing the Investment beliefs, including agreement of the proposed updated wording to the responsible investment policy.</li> </ul>	Cllr John Crowder (chair) Cllr Martin Goode Cllr Osman Dervish Cllr Stephanie Nunn Cllr Keith Darvill Cllr Ron Ower
<b>17 March 2020 – Agenda completed and distributed but no recommendations were considered</b>	<ul style="list-style-type: none"> <li>Pension Fund Performance Monitoring for the quarter ending 31 December 2019, presentations due from one of the Funds Infrastructure managers (JP Morgan)</li> <li>Admission of Caterlink (Life Education Trust) to the Havering pension Fund</li> <li>Investment Strategy Statement (ISS) Update - consider and agree to the updated ISS</li> <li>Review of the Fund manager voting and engagement activity.</li> </ul>	<b>Cancelled due to COVID-19 working restrictions</b>

The Havering Pension Fund adopts a Business Plan/Report on the work of the Pensions Committee which sets out the work undertaken by the Committee during 2019/20 and the plan of work for the following year (2020/2021). This also includes a Training and Development Plan which is linked to the Pension Fund coverage of meetings.

Full coverage of the Committee work and training plan can be found on the Authority's website by selecting the link here [Havering Pension Fund - Business Plan](#).

## CONFLICT OF INTEREST

At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. During 2018/19 there were no conflicts of interests declared.

# Fund Account, Net Asset Statement

Pension Fund Account for the year ended 31 March 2020

2018/19 £000		Notes	2019/20 £000
	<b>Dealings with members, employers and others directly involved in the fund</b>		
43,725	Contributions receivable	7	45,812
1,633	Transfers in from other pension funds	8	5,951
45,358			51,763
(37,834)	Benefits	9	(38,769)
(3,295)	Payments to and on account of leavers	10	(3,272)
(41,129)			(42,041)
4,229	Net additions (withdrawals) from dealings with members		9,722
(5,523)	Management expenses	11	(3,975)
<b>(1,294)</b>	<b>Net additions/(withdrawals) including fund management expenses</b>		<b>5,747</b>
	<b>Returns on investments</b>		
10,835	Investment income	12	10,077
(4)	Taxes on Income	13	(1)
16,746	Profit and losses on disposal of investments and changes in the market value of investments	14a	(20,518)
<b>27,577</b>	<b>Net returns on investments</b>		<b>(10,442)</b>
<b>26,283</b>	<b>Net increase (decrease) in the net assets available for benefits during the year</b>		<b>(4,695)</b>
671,379	Opening net assets of the Fund at start of year		733,391
<b>733,391</b>	<b>Closing net assets of the Fund at end of year</b>		<b>728,696</b>



## Net Asset Statement for the year ended 31 March 2020

2018/19 £000	Notes	2019/20 £000
150 Long Term Investments	14	150
719,286 Investment Assets	14	707,782
- Investment Liabilities	14	(2,174)
<b>719,436 Total net investments</b>		<b>705,758</b>
14,334 Current Assets	21	23,552
(379) Current Liabilities	22	(614)
<b>733,391 Net assets of the Fund available to fund benefits at end of the reporting period</b>		<b>728,696</b>

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

## Notes to the Pension Fund

### 1 Description of the Fund

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

The following description of the scheme is a summary only. For more details on the operation of the Pension Fund, reference should be made to the Havering Pension Fund Annual Report 2019/20 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the (LGPS) Regulations.

#### a) General

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

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

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

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

## b) Membership

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

Organisations participating in the Fund include:

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

During 2019/20 five new employers joined the fund, two transferred out (Havering Sixth Form College and Havering College of Further & higher Education) and one cessation.

There are 51 employer organisations with active members within the Havering Pension Fund including the Authority. The membership profile is detailed below.

31 March 2019		31 March 2020
49	<b>Number of employers with active members</b>	51
	<b>Number of employees in scheme</b>	
4,686	Havering	4,769
1,961	Scheduled bodies	1,650
70	Admitted bodies	73
6,717	<b>Total</b>	6,492
	<b>Number of pensioners and dependants</b>	
5,931	Havering	5,950
522	Scheduled bodies	346
20	Admitted bodies	114
6,473	<b>Total</b>	6,410
	<b>Deferred pensioners</b>	
5,315	Havering	5,274
1,183	Scheduled bodies	807
46	Admitted bodies	93
6,544	<b>Total</b>	6,174
19,734	<b>Total number of members in pension scheme</b>	19,076

## c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the year ended 31 March 2020. Employer contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. Current employer contribution rates range from 17.5% to 38.2% of pensionable pay.

A secondary contribution rate (previously known as deficit amount or past service adjustment) may also be charged. This rate is either paid as a monetary value or as an additional percentage of pensionable pay.

**d) Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table:

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

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup>. Accrued pension is adjusted annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirements, disability pensions and death benefits. For more details please refer to the pension website [Yourpension.org.uk](http://Yourpension.org.uk) - [Haverling Pension Fund](#).

## 2 Basis of Preparation

The Statement of Accounts summarise the Fund's transactions for the 2019/20 financial year and its position at year end as at 31 March 2020. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* "the code" which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector, and guidance on Investment Valuations issued by the Pensions Research accounts Group (PRAG).

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2019/20.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net asset statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in Note 20.

The accounts have been prepared on a going concern basis.

## 3 Summary of Significant Accounting Policies

### Fund Account – revenue recognition

#### (a) Contribution income

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

relate.

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

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

**(b) Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013 (see notes 8 and 10)

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

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

**(c) Investment Income**

**i) Interest Income**

Interest income is recognised in the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

**ii) Dividend Income**

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

**iii) Distribution from Pooled Funds**

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

**iv) Property- Related Income**

Property related income consists primarily of rental income and is recognised at the date of issue.

**v) Movement in the Net Market Value of Investments**

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

**Fund Account – Expense Items**

**(d) Benefits payable**

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

**(e) Taxation**

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

**(f) Management Expenses**

The Fund discloses its pension fund management in accordance with the CIPFA *Accounting for Local Government Pension Scheme Management Expenses (2016)*. All items of expenditure are charged to the fund on an accruals basis as follows

**Administrative Expenses**

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

**Oversight and Governance Costs**

All oversight and governance expenses are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

**Investment Management Expenses**

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

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

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

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

**(g) Lifetime Allowances**

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

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

**Net Assets Statement**

**(h) Financial Assets**

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

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

**(i) Foreign Currency Transactions**

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

**(j) Derivatives**

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

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

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

**(k) Cash and Cash Equivalents**

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

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

**(l) Financial Liabilities**

A financial liability is recognised in the net asset statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised by the fund account as part of the change in value of investments.

**(m) Actuarial Present Value of Promised Retirement Benefits**

The actuarial present value of promised benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

**(n) Additional Voluntary Contributions**

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

AVCs are not included in the accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23)

#### (o) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

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

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

#### 4. Critical Judgements in Applying Accounting Policies

##### Pension Fund Liability

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

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

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

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

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

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

Item	Uncertainties	Effect if Actual Results differ from Assumptions	Approximate monetary amount (£m)
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Fund's assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied	<p>The effects on the present value of promised retirement benefits of changes in actuarial assumptions can be significant.</p> <p>Changes in assumptions could have the approximate following impacts on the Fund's employer liability as follows:</p> <ul style="list-style-type: none"><li>• 0.5% decrease in the real discount rate could result in an increase of 10%</li><li>• 0.5% increase in salary increase rate could result in an increase of 1%</li><li>• 0.5% increase in the pension increase rate could result in an increase of 8%</li></ul>	<p>105</p> <p>6</p> <p>112</p>

## 6. Events after the Reporting Date

The Present Value of Promised Retirement Benefits (note 20) was amended to reflect the adjustment for the McCloud case - which concerns the transitional protections given to the scheme members, who in 2012 were within 10 years of their normal retirement age, in the judges and firefighters schemes as part of public service pension reform. Tapered protections were provided for those 3-4 years younger. On the 20th December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified.

## COVID-19

On 11 March 2020 the World Health Organisation (WHO) declared a COVID-19 pandemic. This caused a world-wide public health emergency and significantly impacted global markets which has contributed to both a volatile and a severe decline in those sectors that have been impacted.

Due to the timings of the valuation data released by some investment managers there will be some valuations included in the accounts which are based as at 31 December 2019 and consequently will not fully reflect the subsequent events mentioned above. Global markets fell to their lowest point close to the financial year end and have subsequently recovered most of their earlier losses. As the full impact is not yet apparent, for the purposes of these financial statements the COVID-19 impact is considered a non-adjusting event.

## 7. Contributions Receivable

### By category

2018/19 £000		2019/20 £000
	<b>Employees' contributions</b>	
	<b>Normal:</b>	
5,482	Havering	5,819
1,641	Scheduled Bodies	1,462
83	Admitted Bodies	74
	<b>Additional contributions:</b>	
13	Havering	7
<b>7,219</b>	<b>Total Employees' Contribution</b>	<b>7,362</b>
	<b>Employers' contributions</b>	
	<b>Normal:</b>	
12,930	Havering	13,808
6,494	Scheduled bodies	5,853
346	Admitted bodies	311
	<b>Deficit funding:</b>	
16,220	*Havering	*18,449
	<b>Augmentation</b>	
324	Havering	4
192	Scheduled bodies	25
<b>36,506</b>	<b>Total Employers' Contributions</b>	<b>38,450</b>
<b>43,725</b>	<b>Total Contributions Receivable</b>	<b>45,812</b>

\*The £18.449m deficit funding in 2019/20 reflects additional contributions made by the Authority to the Pension Fund. It consists of £12.650m secondary contributions and £5.799m in voluntary planned contributions.



**By authority**

2018/19 £000		2019/20 £000
34,969	Havering	38,087
8,327	Scheduled bodies	7,340
429	Admitted Bodies	385
<b>43,725</b>	<b>Total Contributions Receivable</b>	<b>45,812</b>

**8. Transfers in from Other Pension Funds**

2018/19 £000		2019/20 £000
1,633	Individual transfers	5,951
<b>1,633</b>	<b>Transfers In from Other Pension Funds</b>	<b>5,951</b>

**9. Benefits Payable**

**By category**

2018/19 £000		2019/20 £000
	<b>Pensions</b>	
29,702	Havering	30,137
1,222	Scheduled Bodies	1,399
648	Admitted Bodies	851
<b>31,572</b>	<b>Pension Total</b>	<b>32,387</b>
	<b>Commutation and Lump Sum Retirements</b>	
4,823	Havering	4,431
501	Scheduled Bodies	402
250	Admitted Bodies	179
<b>5,574</b>	<b>Commutation and Lump Sum Retirements Total</b>	<b>5,012</b>
	<b>Lump Sum Death Benefits</b>	
477	Havering	1,305
165	Scheduled Bodies	65
46	Admitted bodies	-
<b>688</b>	<b>Lump Sum Death Benefits Total</b>	<b>1,370</b>
<b>37,834</b>	<b>Total Benefits Payable</b>	<b>38,769</b>

**By authority**

<b>2018/19 £000</b>		<b>2019/20 £000</b>
35,002	Havering	35,873
1,888	Scheduled bodies	1,866
944	Admitted Bodies	1,030
<b>37,834</b>	<b>Total Benefits Payable</b>	<b>38,769</b>

**10. Payments To and On Account of Leavers**

<b>2018/19 £000</b>		<b>2019/20 £000</b>
120	Refunds to members leaving service	110
3,175	Individual transfers	3,162
<b>3,295</b>	<b>Payments to and on Account of Leavers</b>	<b>3,272</b>

At the year end there are potential liabilities of a further £0.190m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions (See Note 26).

**11. Management Expenses**

<b>2018/19 £000</b>		<b>2019/20 £000</b>
801	Administrative Costs	315
4,303	Investment Management Expenses	3,192
399	Oversight and Governance Costs	452
16	Oversight and Governance Costs - External Audit costs	14
4	Local Pension Board	2
<b>5,523</b>	<b>Management Expenses</b>	<b>3,975</b>

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

The investment management expenses above includes £0.108m (2018/19 £0.076m) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.023m in respect of transaction costs (2018/19 £0.358m).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 14).

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

#### 11a. Investment Management Expenses

2018/19 £000		2019/20 £000
3,895	Management Fees	3,125
27	Performance measurement fees	17
23	Custody fees	27
358	Transaction costs	23
<b>4,303</b>	<b>Investment Management Expenses</b>	<b>3,192</b>

#### 12. Investment Income

2018/19 £000		2019/20 £000
4,841	Pooled Investments – unit trusts and other managed funds	8,149
3,514	Income from Bonds*	2,582
1,960	Pooled Property Investments	1,920
289	Income from derivatives (Foreign Exchange Gains/(losses))	(2,642)
149	Interest on Cash Deposits	202
82	Other Income	(134)
<b>10,835</b>	<b>Investment Income</b>	<b>10,077</b>

\* Income includes Index linked Interest of £0.103m (2018/19 £0.126m)

#### 13. Taxes on Income

2018/19 £000		2019/20 £000
(4)	Withholding Tax	(1)
<b>(4)</b>	<b>Taxes on Income</b>	<b>(1)</b>

#### 14. Analysis of Investments

2018/19 £000		2019/20 £000
	<b>Investment Assets</b>	
150	<b>Long Term Investments</b>	150
<b>150</b>		<b>150</b>
	<b>Bonds - Fixed Interest Securities</b>	
13,901	UK Public Sector	1,574
76,084	UK Private (Corporate)	47,632
<b>89,985</b>		<b>49,206</b>
	<b>Bond - Index-Linked Securities</b>	
30,150	UK Public Sector	36,730
2,936	UK Private (Corporate)	3,302
<b>33,086</b>		<b>40,033</b>
	<b>Equities</b>	
96	UK Quoted	-
<b>96</b>		<b>96</b>
	<b>Derivative Contracts</b>	
-	Forward Currency Contracts	1,445
<b>-</b>		<b>1,445</b>
	<b>Pooled Investment</b>	
493,040	UK Unit trusts - Quoted	475,846
36,097	Overseas Other Unit Trusts - Unquoted	63,619
42,109	UK Pooled property investments – Unquoted	41,174
13,046	Overseas Pooled Property Investments - Unquoted	28,956
<b>584,292</b>		<b>609,595</b>
10,505	Cash deposits Managers	6,778
1,318	Investment income due	725
4	Outstanding Dividend and Recoverable Withholding Tax	-
<b>11,827</b>		<b>7,503</b>
<b>719,436</b>	<b>Total Investment Assets</b>	<b>707,932</b>
	<b>Investment Liabilities</b>	
	<b>Derivative Contracts</b>	
	Forward Currency Contracts	(2,173)
	Income Receivable	(1)
<b>-</b>	<b>Total Investment Liabilities</b>	<b>(2,174)</b>
<b>719,436</b>	<b>Total Net Investments</b>	<b>705,758</b>

#### 14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2019 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Cash & Other Movements £000	Market Value at 31 March 2020 £000
Equities	96	-	(107)	11	-	-
Fixed Interest Securities	89,985	28,259	(71,671)	2,633	-	49,206
Index-linked Securities	33,086	41,935	(35,974)	986	-	40,033
Pooled Investment Vehicles	584,442	94,427	(45,707)	(23,417)	-	609,745
Derivatives – forward currency contracts	-	146,466	(146,466)	(728)	-	(728)
Cash Deposits (fund managers)	10,505	-	-	3	(3,724)	6,778
	<b>718,114</b>	<b>311,087</b>	<b>(299,925)</b>	<b>(20,518)</b>	<b>(3,724)</b>	<b>705,034</b>
Other Investment Balances	1,322	-	-	-	(598)	724
	<b>719,436</b>	<b>311,087</b>	<b>(299,925)</b>	<b>(20,518)</b>	<b>(4,322)</b>	<b>705,758</b>

	Market Value at 31 March 2018 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Cash & Other Movements £000	Market Value at 31 March 2019 £000
Equities	-	84	-	(10)	22	96
Fixed Interest Securities	84,128	25,991	(21,565)	1,431	-	89,985
Index-linked Securities	35,123	8,412	(12,290)	1,841	-	33,086
Pooled Investment Vehicles	565,563	79,680	(74,278)	13,499	(22)	584,442
Derivatives – forward currency contracts	18	86,021	(86,021)	(18)	-	-
Cash Deposits (fund managers)	3,215	-	-	3	7,287	10,505
	<b>688,047</b>	<b>200,188</b>	<b>(194,154)</b>	<b>16,746</b>	<b>7,287</b>	<b>718,114</b>
Other Investment Balances	1,248	-	-	-	74	1,322
	<b>689,295</b>	<b>200,188</b>	<b>(194,154)</b>	<b>16,746</b>	<b>7,361</b>	<b>719,436</b>

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

Purchases and Sales of derivatives (forward current contracts) are recognised in Note 14a above for contracts settled during the period are reported on a gross basis as gross receipts and payments.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £0.023m (2018/19 £0.358m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2020 were as follows:

**14b. Investments analysed by Fund Manager**

Value 31 March 2019		Manager	Mandate	Value 31 March 2020	
£000	%			£000	%
Investments managed by London CIV asset pool:					
150	0.02	London CIV	Equities unquoted	150	0.02
94,692	13.16	Ruffer	Pooled Absolute Return Fund	97,738	13.85
138,095	19.20	Baillie Gifford	Pooled Global Alpha Growth Fund	136,341	19.32
87,740	12.20	Baillie Gifford	Pooled Diversified Growth Fund	80,000	11.34
320,677	44.58			314,229	44.52
PLUS Life Fund Investments aligned with London CIV asset pool:					
132,172	18.37	Legal & General Investment Management	Passive UK/Global Equities/ Emerging Markets	123,850	17.55
452,849	62.95	London CIV Total		452,849	62.07
Investments managed outside of the London CIV asset pool:					
135,062	18.77	*Royal London Index linked Fund	Investment Grade Bonds	70,577	10.00
-	-	*Royal London Corp Bond Fund	Investment Grade Bonds	53,611	7.60
43,541	6.05	UBS	Pooled Property	41,067	5.82
34,450	4.79	GMO	Pooled Multi Asset	5,038	0.71
13,422	1.87	CBRE	Global Pooled Property	28,956	4.10
7,791	1.08	Stafford Capital	Overseas Pooled Infrastructure	17,447	2.47
29,241	4.06	JP Morgan	Overseas Pooled Infrastructure	26,964	3.82
3,072	0.43	Churchill	Overseas Pooled Private Debt	14,026	1.99
-	-	Permira	Overseas/UK Pooled Private Debt	5,605	0.79
-	-	Russell Investments	Currency Management	(728)	(0.10)
8	0.00	Other	Other	5,116	0.72
266,587	37.05	Managed outside asset pool Total		267,679	37.93
719,436	100.00	Total Fund		719,758	100.00

\*Royal London mandate split into two mandates during 2019/20

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

Market Value 31 March 2019 £000	% of Total Fund	Security	Market Value 31 March 2020 £000	% of Total Fund
138,095	19.20	London CIV Global Alpha Fund	136,341	18.70
94,692	13.16	London CIV Ruffer Absolute Return Fund	97,738	13.41
87,740	12.20	London CIV Diversified Growth Fund	80,000	10.97
54,689	7.60	LGIM All World Equity Index	51,296	7.04
52,717	7.33	LGIM FTSE RAFI AW 3000 Index	44,638	6.12
42,109	5.86	UBS Property	41,067	5.65

#### 14c. Stock Lending

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

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

All income arising from stock lending less the custodian/administrator's costs are credited to the funds lending the stocks. LGIM does not receive any revenue from the stock lending. As at 31 March 2019, the value of quoted equities on loan was nil (£97.6m 31 March 2019). These equities continue to be recognised in the fund's financial statements.

#### 15. Analysis of derivatives

##### Objectives and policies for holding derivatives

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

##### Forward foreign currency

The Fund currently has exposure to forward currency contracts and the purpose of this is to reduce the Fund's exposure to fluctuations in exchange rates. The Fund managers who use forward currency contracts are Royal London. A breakdown of forward contracts held by the Fund as at 31 March 2020 is given below:

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value (Unrealised Gain)	Liability Value (Unrealised Loss)
		000		000	£000	£000
		000		000	£000	£000
<b>Gross open forward currency contracts at 31 March 2020</b>					-	-
<b>Up to One month</b>	<b>GBP</b>	9,977	<b>EUR</b>	10,444	-	(467)
	<b>GBP</b>	12,590	<b>USD</b>	13,314	-	(724)
	<b>GBP</b>	2,375	<b>AUD</b>	2,256	119	-
	<b>USD</b>	511	<b>GBP</b>	479	32	-
	<b>EUR</b>	23	<b>GBP</b>	23	-	-
<b>Up to Two months</b>	<b>GBP</b>	8,984	<b>EUR</b>	9,455	-	(471)
	<b>GBP</b>	13,975	<b>USD</b>	14,486	-	(511)
	<b>GBP</b>	2,190	<b>AUD</b>	2,120	70	-
	<b>USD</b>	5	<b>GBP</b>	5	-	-
<b>Up to Three months</b>	<b>GBP</b>	10,328	<b>EUR</b>	9,924	404	-
	<b>GBP</b>	14,411	<b>USD</b>	13,651	760	-
	<b>GBP</b>	2,251	<b>AUD</b>	2,191	60	-
	<b>USD</b>	12	<b>GBP</b>	12	-	-
	<b>EUR</b>	125	<b>GBP</b>	125	-	-
<b>Open currency contracts at 31 March 2020</b>					<b>1,445</b>	<b>(2,173)</b>
<b>Net forward currency contracts at 31 March 2020</b>						<b>(728)</b>
<b>Prior year comparative</b>						
<b>Gross open forward currency contracts at 31 March 2019</b>					-	-
<b>Net forward currency contracts at 31 March 2019</b>					-	-

#### 16. Fair Value Basis of Valuation

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

Description of asset	Value hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Market quoted investments</b>	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
<b>Quoted bonds</b>	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required



Description of asset	Value hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Forward foreign exchange derivatives</b>	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
<b>UK Pooled instruments-property funds</b>	Level 3	Valuations carried out by the property funds external valuers, Knight Frank LLP	Market value in accordance with the "RICS" Appraisal and Valuation Standards	Valuations could be affected by significant differences in rental value and rent growth
<b>Overseas Pooled instruments property funds</b>	Level 3	The valuation function is performed by the Alternative Investment Fund Manager (AIFM) in accordance with the AIFMD	A Pricing Committee, composed of senior members of the AIFM, is in place, who meet quarterly and is responsible for overseeing proposed adjustments to the value of investments	Valuations could be affected by significant differences in rental value and rental growth. There may be a timing difference between the date of the last reported underlying property valuation and the date of the Funds financial statements, during which the underlying property valuation may have increased or decreased by a significant amount
<b>Overseas Pooled instruments Infrastructure Funds (JP Morgan)</b>	Level 3	The valuation function is performed by the JP Morgan Investment Inc (the Advisor). Estimated fair values are determined by the Advisor at valuation date and independently appraised on a quarterly basis.	Three valuation techniques can be used, the market, income or cost approach. For this fund, Income approach was used based on Unobservable input of Discount/WAAC rate and Exit EBITDA Multiples.	Risks to the valuation involve a number of local, national and international economic conditions. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuations may have increased or decreased by a significant amount
<b>Overseas Pooled instruments Infrastructure Funds (Stafford Capital)</b>	Level 3	Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.	Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.	Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.
<b>Overseas Pooled instruments Private Debt Funds (Churchill)</b>	Level 3	Valuations undertaken quarterly. To determine the value the manager uses models that consider credit risk, liquidity, market spreads and other applicable factors.	Unobservable inputs include market yield discount rates and credit performance rates	Significant increases (decreases) in discount yields could result in lower (higher) fair value measurement. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuation may have increased or decreased by a significant amount.

Description of asset	Value hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Overseas/UK Pooled instruments Private Debt Funds (Permira)</b>	Level 3	Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.	Estimates and assumptions continually evaluated	Use of critical accounting estimates and changes in assumptions may have significant on the valuations. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuation may have increased or decreased by a significant amount.

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020..

	Assessed valuation range (+/-) %	Value at 31 March 2020 £000	Value on increase £000	Value on decrease £000
Pooled Investments – Property Funds	4.00	70,130	72,935	67,325
Pooled unit Trusts	14.40	63,619	72,780	54,457

### 16a. Fair Value Hierarchy

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

#### Level 1

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

#### Level 2

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

#### Level 3

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

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

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial Assets</b>				
Financial assets at fair value through profit and loss	565,530	150	133,749	700,429
Loans and receivables	31,055	-	-	31,055
<b>Total Financial Assets</b>	<b>596,585</b>	<b>150</b>	<b>133,749</b>	<b>731,484</b>
<b>Financial Liabilities</b>				
Financial liabilities at amortised cost	(2,788)	-	-	(2,788)
<b>Total Financial Liabilities</b>	<b>(2,788)</b>	<b>-</b>	<b>-</b>	<b>(2,788)</b>
<b>Net Financial Assets</b>	<b>594,797</b>	<b>150</b>	<b>133,749</b>	<b>728,696</b>

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial Assets</b>				
Financial assets at fair value through profit and loss	616,207	36,247	55,155	707,609
Loans and receivables	26,161	-	-	26,161
<b>Total Financial Assets</b>	<b>642,368</b>	<b>36,247</b>	<b>55,155</b>	<b>733,770</b>
<b>Financial Liabilities</b>				
Financial liabilities at amortised cost	(379)	-	-	(379)
<b>Total Financial Liabilities</b>	<b>(379)</b>	<b>-</b>	<b>-</b>	<b>(379)</b>
<b>Net Financial Assets</b>	<b>641,989</b>	<b>36,247</b>	<b>55,155</b>	<b>733,391</b>

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

**16b Reconciliation of Fair Value Measurement within Level 3**

	Market Value 31 March 2019	Transfer out of Level 3	Transfer Into Level 3	Purchases	Sales	Unrealised gains/losses	Realised gains/losses	Market Value 31 March 2020
	£000	£000	£000	£000	£000	£000	£000	£000
Property Funds	55,155	-	-	13,139	-	1,836	-	70,130
Infrastructure	-	-	33,082	9,434	(1,290)	12,979	(10,216)	43,989
Private Debt	-	-	3,015	13,171	(284)	3,728	-	19,630
<b>Total</b>	<b>55,155</b>	<b>-</b>	<b>36,097</b>	<b>35,744</b>	<b>(1,574)</b>	<b>18,543</b>	<b>(10,216)</b>	<b>133,749</b>

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

(a) Transferred from Level 2 to Level 3 December 2019 and March 2020 due to change in investment strategy - disinvestment from Level 2 to invest in Infrastructure Level 3

(b) Transferred from Level 1 to Level 3 October and December 2019 due to change in investment strategy - disinvestment from Level 1 to invest in Private Debt Level 3

## 17 Financial Instruments

### (a) Classification of financial instruments

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

31 March 2019				31 March 2020		
Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000		Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
			<b>Financial Assets</b>			
150	-	-	Long Term Investments	150	-	-
96	-	-	Equities	-	-	-
89,985	-	-	Bonds - Fixed Interest Securities	49,206	-	-
33,086	-	-	Bonds - Index linked securities	40,033	-	-
-	-	-	Derivative contracts	1,445	-	-
529,137	-	-	Pooled investment Vehicles	539,465	-	-
55,155	-	-	Property	70,130	-	-
-	10,505	-	Cash	-	6,778	-
-	1,322	-	Other Investment Balances	-	725	-
-	14,334	-	Debtors	-	23,552	-
<b>707,609</b>	<b>26,161</b>	-	<b>Financial Assets Total</b>	<b>707,609</b>	<b>31,055</b>	-
			<b>Financial Liabilities</b>			
-	-	-	Other Investment Balances	(1)	-	-
-	-	-	Derivative contracts	(2,173)	-	-
-	-	(379)	Creditors	-	-	(614)
-	-	<b>(379)</b>	<b>Financial Liabilities Total</b>	<b>(2,174)</b>	-	<b>(614)</b>
<b>707,610</b>	<b>26,161</b>	<b>(379)</b>	<b>Grand total</b>	<b>698,255</b>	<b>31,055</b>	<b>(614)</b>
<b>733,391</b>				<b>728,696</b>		

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

2018/19 £000		2019/20 £000
	<b>Financial assets</b>	
16,746	Fair value through profit and loss	(20,518)
<b>16,746</b>	<b>Total</b>	<b>(20,518)</b>

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

## **18. Nature and Extent of Risks Arising from Financial Instruments**

### **Risk and Risk Management**

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

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

#### **(a) Market Risk**

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

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

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

#### **Other Price Risk**

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

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

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

#### **Other Price Risk – Sensitivity Analysis**

Following analysis of historical data and expected investment return movements during the financial year, in consultation with Pensions & Investments Research Consultants (PIRC), it has been determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period:

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

Asset Type	Value as at 31 March 2020	Potential market movements	Value on Increase	Value on Decrease
	£000	%	£000	£000
Equities	260,341	13.10	294,446	226,237
Total Bonds	122,119	8.00	131,888	112,349
Pooled Overseas Unit Trusts	63,619	14.40	72,780	54,457
Global Pooled inc.UK	182,776	6.00	193,742	171,809
Pooled Property	70,130	4.00	72,935	67,325
Cash	6,773	0.60	6,814	6,733
<b>Total</b>	<b>705,758</b>		<b>772,605</b>	<b>638,910</b>

Asset Type	Value as at 31 March 2019	Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Equities	96	10.10	106	86
Total Bonds	123,071	8.90	134,023	112,067
Global Pooled inc.UK	529,287	6.10	561,574	497,001
Property	55,155	3.40	57,030	53,280
Cash	10,505	0.50	10,558	10,453
<b>Total</b>	<b>718,114</b>		<b>763,291</b>	<b>672,887</b>

### Interest Rate Risk

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

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

### Interest Rate Risk Sensitivity Analysis

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

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

The analysis that follows assumes all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1%) change in interest rates

Assets exposed to interest rate risk	Value as at 31 March 2020 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on Decrease £000
Bond Securities	122,119	1,221	123,340	120,898
Cash and Cash Equivalents	6,773	68	6,841	6,705
Cash Balances	23,056	231	23,287	22,825
<b>Total Change in Asset Value</b>	<b>151,948</b>	<b>1,519</b>	<b>153,467</b>	<b>150,429</b>

Assets exposed to interest rate risk	Value as at 31 March 2019 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on Decrease £000
Bond Securities	123,071	1,231	124,301	121,839
Cash and Cash Equivalents	10,505	105	10,610	10,400
Cash Balances	13,698	137	13,836	13,562
<b>Total Change in Asset Value</b>	<b>147,274</b>	<b>1,473</b>	<b>148,747</b>	<b>145,801</b>

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

#### Currency Risk

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

#### Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with PIRC, it has been determined that a likely volatility associated with foreign exchange rate movements is 7.4% over a rolling 36 month period.

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

A 7.4% strengthening and weakening of the pound against the various currencies in which the Fund holds investments would increase or decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Value as at 31 March 2020 £000	Potential Market movement at 7.40% £000	Value on increase £000	Value on Decrease £000
Overseas Pooled	86,970	6,436	93,406	80,534
Overseas Cash	4,836	358	5,194	4,478
<b>Total change in assets available to pay benefits</b>	<b>91,806</b>	<b>6,794</b>	<b>98,600</b>	<b>85,012</b>



Assets exposed to currency risk	Value as at 31 March 2019 £000	Potential Market movement at 9.20% £000	Value on increase £000	Value on Decrease £000
Overseas Pooled	49,143	4,374	53,517	44,769
Overseas Cash	770	69	839	701
<b>Total change in assets available to pay benefits</b>	<b>49,913</b>	<b>4,443</b>	<b>54,356</b>	<b>45,470</b>

**(b) Credit Risk**

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

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

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

**(c) Liquidity Risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it always has adequate cash resources to meet its commitments. The Fund's cash holding under its treasury management arrangements as at 31 March 2020 was £23.056m (31 March 2019 £13.696m). The Pension Fund has immediate access to its cash holdings that are invested by the Authority and periodic cash flow statements are prepared to manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund's cash management policy and in line with the Fund's strategy holds assets that are considered readily realised.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2020 the value of liquid assets was £595m, which represented 82% of the total Fund (31 March 2019 £642m, which represented 88% of the total fund assets).

**(d) Refinancing Risk**

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

**19. Funding Arrangements**

**Actuarial Statement for 2019/20**

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

purpose of complying with the aforementioned regulation.

### **Description of Funding Policy**

The Funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS) dated December 2019. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return ( 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;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

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

### **Funding Position as at the last formal funding valuation**

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £733 million, were sufficient to meet 70% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £320 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2022 were set in accordance with the Fund's funding policy as set out in its FSS.

### **Principal Actuarial Assumptions and Method used to value the liabilities**

Full details of the methods and assumptions used are described in the 2016 valuation report.

#### **Method**

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

#### **Assumptions**

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

The key financial assumptions adopted for the 2019 valuation were as follows:

<b>Assumptions</b>	<b>31 March 2019 %</b>
Discount Rate for Period	3.3
Salary increases assumption	3.0
Benefit increase assumption (CPI)	2.3

The key demographic assumption was the allowance made for longevity. The life expectancy assumption are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.6 years	23.7 years
Future Pensioners*	22.4 years	25.2 years

\* Aged 45 at the 2019 Valuation

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administrating Authority to the Fund.

### Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will be reviewed at that time.

## 20. Actuarial Present Value of Promised Retirements

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, but taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future. In order to assess the value of benefits on this basis, the actuary has updated the actuarial assumption (set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS19.

31 March 2020 £m	Year Ended	31 March 2019 £m
1,344	Present Value of Promised Retirement Benefits	1,195
(733)	Fair Value of Scheme assets (bid value)	(729)
<b>611</b>	<b>Net Liability</b>	<b>466</b>

Note the above figures include an allowance for the "McCloud ruling", i.e an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, the actuary is satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

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

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

## Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2020 and 31 March 2019. It is estimated that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £102m. It is estimated that the impact from the change in the demographic and longevity assumptions is to decrease actuarial present value by £34m.

### Financial assumptions

The actuary's recommended financial assumptions are summarised below:

Year Ended	31 March 2020 % p.a.	31 March 2019 % p.a.
Pension Increase Rate	1.9	2.5
Salary Increase Rate	2.6	2.8
Discount Rate	2.3	2.4

### Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.6 years	23.7 years
Future Pensioners	22.4 years	25.2 years

Please note the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

### Commutation assumption

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

### Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate increase to liabilities %	Approximate monetary amount £m
0.5% p.a. increase in the Pension Increase Rate	9	105
0.5% p.a. increase in the Salary Increase Rate	1	6
0.5% p.a. decrease in the Real Discount Rate	9	112

The principal demographic assumption is the longevity assumption. For sensitivity purposes, it is estimated that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

## Professional notes

These notes accompany the covering report titled 'Actuarial Valuation as at 31 March 2020 for accounting purposes'. The covering report identifies the appropriate reliance and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

### 21. Current Assets

2018/19 £000		2019/20 £000
	<b>Debtors:</b>	
372	Contributions due from employers	265
100	Contributions due from employees	68
211	Pension Fund Bank Account Balances	1,307
26	Sundry Debtors	3
13,625	Cash deposit with LB Havering	21,909
<b>14,334</b>	<b>Current Assets</b>	<b>23,552</b>

### 22. Current Liabilities

2018/19 £000		2019/20 £000
	<b>Creditors:</b>	
(120)	Unpaid Benefits	(314)
(122)	Sundry Creditors	(140)
(137)	Holding Accounts	(160)
<b>(379)</b>		<b>(614)</b>

### 23. Additional Voluntary Contributions

Market Value 2018/19 £000	AVC Provider	Market Value 2019/20 £000
788	Prudential	753
134	Standard Life	108

Some employees made additional voluntary contributions (AVC's) of £33,022 (2018/19 £35,004) excluded from these statements. These are deducted from the employees' salaries and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2019/20 £30,622) to the Prudential (2018/19 £32,604) and £2,400 (2018/19 2,400) to Standard Life.

## 24. Agency Services

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

2018/19 £000		2019/20 £000
1,380	Payments on behalf of Havering Council	1,360

## 25. Related Party Transactions

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

The Fund is administering by Havering Council and consequently there is a strong relationship between the Authority and the Fund. In 2019/20, £0.230m was paid to the Authority for the cost of administering the Fund (2018/19 £0.710m).

The Authority is also the largest employer in the Fund and in 2019/20 contributed £32.257m (2018/19 £29.150m) to the Pension Fund in respect of employer's contributions.

Part of the Pension Fund internal cash holdings are invested on the money markets by the treasury management operations of Havering Council, through a service level agreement. As at 31 March 2020 cash holdings totalled £23.056m (2018/19 £13.696m), earning interest over the year of £0.202m (2018/19 0.148m).

### Governance

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

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

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

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

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

The members of the Local Pension Board receive an attendance allowance for each meeting and these costs are included within Note 11.

### Note 25a Key Management Personnel

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

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

## **26. Contingent Liabilities and Contractual Commitments**

Outstanding capital commitments (investments) as at 31 March 2020 were £49.94m (31 March 2019 £91.35m). These commitments relate to outstanding capital call payments due on unquoted limited partnership funds held in Private Debt and Infrastructure parts of the portfolio.

Following the Freedom and Choice provisions announced in the 2014 Budget, the Pension Fund has seen some enquiries from members about transferring benefits out of the LGPS. As mentioned in Note 10 there are potential liabilities of £0.190m in respect of individuals transferring out of the pension Fund upon whom the Fund is awaiting final decisions. Information is not available which shows how much of this is attributable to Freedom and Choice provisions.

Two admitted bodies in the Havering Pension Fund hold insurance bonds or guarantees in place to guard against the possibility of being unable to meet their pension obligations. These bonds total £1.33m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Two admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.52m.

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

# Asset Pools

In 2015 the Department of Housing, Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- benefits of scale
- strong governance and decision making
- reduced costs and excellent value for money, and
- an improved capacity and capability to invest in infrastructure.

This has led to the creation of eight asset pools which have significantly changed the previous approach to investing, although it should be stressed that the responsibility for determining asset allocations and the investment strategy remains the Havering Pension Fund.

The Havering Pension Fund's asset pool is the London CIV (LCIV).

The LCIV is a Collective Investment Vehicle for London Local Authorities (LLA) Local Government Pension Scheme (LGPS) funds. It is a Financial Conduct Authority (FCA) regulated firm and its purpose is to be the LGPS pool for London to enable the London Local Authorities to achieve their pooling requirements. They work in partnership with the London Local Authorities in order to do so.

The LCIV was established in 2015 as a voluntary collaborative venture by the London Local Authorities to pool/invest the assets of the London LGPS. In line with Central Governments vision to reduce investment costs but maintain performance levels it has been a mandatory requirement to pool assets since 2016.

It is the Fund's intention to invest its assets through the LCIV pool. As at 31 March 2020 the Fund has 44% of its assets fully pooled with LCIV and a further 18% of its assets passively managed under advisory/execution mandates by the LCIV.

Those assets held with the LCIV are now managed by them but report performance to the Committee periodically

The Fund will continue to assess the products available on the LCIV platform for their suitability to meet the Funds investment strategy objectives.

For a breakdown of assets managed directly by the pool and investment assets managed outside of the pool please refer to the Investment Policy and Performance section of the report under Asset Allocation.

Contact details of the pool company:

**Postal address**

London CIV  
Fourth Floor  
22 Lavington Street  
London  
SE1 0NZ

**Email:** [pensionsCIV@londonciv.org.uk](mailto:pensionsCIV@londonciv.org.uk)

**Telephone:** 0208 036 9000



## Governance Arrangements

The London CIV governance structure was revised from July 2018 and consists of the following:

**Board** -The Board has the opportunity to consider any views presented to it by the Committee but will not be obliged to take any action in respect of such views unless the Board believes this to be in the best interests of the Shareholders and the Company. The Board consists of an independent Chair, five Non – Executive Directors (NEDs), two NEDs nominated by Local Authorities, three Executive Directors, the Chair of the General meeting, plus a Local Authority Treasurer as an observer.

**Shareholders Committee** is a committee of the London CIV and acts collectively, are to be consulted by the Board on strategy, direction and financial performance and Company policies. It will also identify, assess and discuss emerging issues and opportunities facing Shareholders which may impact the Company, and discuss solutions proposed by the Company; and to express views to the Board and Shareholders collectively as appropriate. The Shareholder Committee meets quarterly and is made up of 12 members from London Local Authorities (a mix of four Treasurers and eight leaders/pension chairs) plus the Chair of the Board.

**General meeting** - A General Meeting of the London CIV will be held twice a year with all 32 shareholders plus a Chair, managed by London CIV. The meeting is to inform all shareholders on the performance of the LCIV and allow shareholders to exercise their rights under the Shareholders.

The arrangements with Local Authorities are formalised via a Service Level Agreement (SLA).

## POST POOL REPORTING

### Pool set up costs

The breakdown of set up costs has not been made available so it is not practical to compile data in the relevant format suggested in the guidance.

Please see the following table for the set ups cost and as reported by the London CIV their management costs and fee savings:

	2015/16	2016/17	2017/18	2018/19	2019/20	Cumulative Total
Set Up Costs:	£000's	£000's	£000's	£000's	£000's	£000's
Share Purchase Subscription	150					150
Annual Service Charge	25	25	25	25	25	125
Implementation Fund	50	-	-	-	-	50
Development Fund	-	-	75	65	65	205
<b>Total Set Up costs Total</b>	<b>225</b>	<b>25</b>	<b>100</b>	<b>90</b>	<b>90</b>	<b>530</b>
ADD LCIV management Fees	Not available	59	76	78	92	304
<b>Total cost</b>	<b>225</b>	<b>83</b>	<b>176</b>	<b>168</b>	<b>182</b>	<b>834</b>
Gross Fee savings	6	35	98	259	534	932
<b>Net Savings</b>	<b>(219)</b>	<b>(48)</b>	<b>(78)</b>	<b>91</b>	<b>352</b>	<b>98</b>

### Ongoing investment management costs

In addition to the operating costs of the pool shown above the Fund also pays ongoing investment costs. These costs include fees paid to the pool for managing the investments and fees paid to managers for assets held outside the pool.

An analysis of these costs are further split between those costs for which the funds pay directly via an invoice and costs that are indirectly charged by reducing the valuation of the fund (In the accounts we take account of the indirect costs by increasing the change in market value).

Analysis of costs for the year to 31 March 2020, as per the statement of accounts, can be seen in the following table:

	Asset Pool			Non asset pools			Fund Total
	Direct	Indirect	Total	Direct	Indirect	Total	
	£000	£000	£000	£000	£000	£000	£000
<b>Management Fees</b>							
...ad valorem	34	1,585	1,619	237	994	1,231	2,850
...performance	-	-	-		109	109	109
<b>Total Management Fees</b>	<b>34</b>	<b>1,585</b>	<b>1,619</b>	<b>237</b>	<b>1,103</b>	<b>1,340</b>	<b>2,959</b>
<b>Asset Shared Cost (LCIV Management Fees)</b>	-	84	84	-	-	-	84
<b>Transaction costs</b>	-	-	-	-	33	33	33
<b>Custody Costs</b>	-	55	55	27	-	27	82
<b>Other Costs</b>	-	9	9	25	-	25	34
<b>Total</b>	<b>34</b>	<b>1,733</b>	<b>1,767</b>	<b>289</b>	<b>1,136</b>	<b>1,425</b>	<b>3,192</b>

## Asset Allocation and performance for the year as at 31 March 2020

Asset Category	Opening Value	Closing Value	Performance gross	Performance Net	Passive index	Local Target
	£000	£000	%	%	%	%
<b>Asset pool managed investments</b>						
Pooled Multi Asset/DGF Total	182,432	177,738	-1.7	-2.5	n/a	2.3
Pooled Equities Total	138,245	136,491	-0.9	-1.3	-6.2	n/a
Passive Listed Equity Total	132,172	123,850	-11.2	-11.2	-11.3	n/a
<b>Asset pool managed Total</b>	<b>452,849</b>	<b>438,079</b>	<b>-4.3</b>	<b>-4.7</b>	<b>n/a</b>	<b>-4.4</b>
<b>Non Asset pool managed investments</b>						
Pooled Multi Asset/DGF Total	32,662	5,038	-13.9	-14.7	n/a	6.2
Pooled Property Total	55,155	70,130	6.3	5.6	n/a	2.7
Pooled Infrastructure Total	33,083	43,988	19.9	19.3	n/a	6.5
Pooled Private Debt Total	3,015	19,631	16.5	15.8	n/a	4.9
Pooled Equity Total	7,680	-	-	-	-	-
Active Bonds Total	123,070	122,119	2.1	1.9	n/a	1.1
Active Equities Total	96	-	-	-	-	-
Cash Deposits Total	10,505	6,778	n/a	n/a	n/a	n/a
Other Total	1,322	723	n/a	n/a	n/a	n/a
Derivatives (Currency Overlay) Total	-	-728	n/a	n/a	n/a	n/a
<b>Non Asset pool managed investments Total</b>	<b>266,588</b>	<b>267,679</b>	<b>4.9</b>	<b>4.5</b>		<b>2.4</b>
<b>Fund Total</b>	<b>719,436</b>	<b>705,758</b>	<b>-1.1</b>	<b>-1.6</b>		<b>-0.3</b>

### Notes for the above table

- Performance figures are based on information provided by Northern Trust in their quarterly performance reporting to 31 March 2020, which we understand are net of fees;
- The performance of certain mandates (including CBRE, Churchill and JP Morgan) captures an element of FX rate movement due to these mandates being denominated in a non-GBP currency. In practice, these currency fluctuations are hedged through the Fund's currency overlay programme managed by Russell but since the currency overlay has been operational for less than 12 months, performance data does not feature in this summary.
- We have blended performance from underlying mandates approximately, by allowing for estimated average asset levels over the periods invested. For this purpose, average asset levels are based on information provided to us by the investment managers or Northern Trust for quarterly monitoring purposes;
- Gross of fees performance is estimated by adding the charges to the net performance figures. For this purpose, we have used charges set out in the Appendix to our regular monitoring reports.
- We have assumed 'passive index' relates to investments which can be replicated via index-tracking funds, and 'local target' for other investments
- In general, blended performance figures should be regarded as 'indicative'. Whilst they are calculated based on available information, a more accurate approach would allow for precise asset levels, and cash flows.

# Pensions Administration Strategy

Under regulation 34(1) (g) and in accordance with regulation 65 (2) (b) of the Local Government Pension Scheme (Administration) Regulations 2008, an administering authority has the option to include an annual report dealing with the fund's position with regard to benchmarking administration performance. In line with regulations and after consideration, the Administrative Authority has not adopted a Pension Administration Strategy. This position will be regularly reviewed.

Although the Administering Authority has not adopted an Administration Strategy it has documents that cover the information on the pension scheme, forms and contribution schedules. All new scheme employers are provided with information regarding their roles and responsibilities, service standards are outlined and electronic copies of all information, forms and schedules are provided. Employing authorities must ensure proper records of staff are kept so that the right contributions are paid and members receive the benefits to which they are entitled when they leave employment.

# Funding Strategy Statement

The Fund publishes a Funding Strategy Statement (FSS) in accordance with Regulation 58 of the LGPS Regulations 2013.

The Regulation requires the Pension Fund Administering Authority to publish a statement, keep its statement under review and to make such revisions as are appropriate following a material change to its policy as set out in the statement.

The FSS was reviewed as part of the 2019 valuation process and produced in line with the revised and updated guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2016. The FSS was effective from December 2019.

The FSS was prepared by the Administration Authority in collaboration with the Fund's Actuary, Hymans Robertson and after consultation with the Fund's employers. The draft version of the Funding Strategy Statement was distributed to all participating employers and the consultation ended on 20 December 2019.

The FSS sets out the objectives of the London Borough of Havering Pension Fund's funding strategy and includes a summary of the Fund's approach to funding its liabilities.

The FSS can be found in the appendices attached to this report and is available on the Authority's website by selecting the link [Havering Pension Fund](#)

The Authority undertakes regular reviews of the above statement and will consider any comments you may have for future reviews. Please forward comments to the contact point designated on [page 105](#) of this report.

There was a regulatory update on the 20<sup>th</sup> March 2020 which will require the Administering Authority to determine appropriate exit credits. The FSS will be updated to reflect this change in due course.

In collaboration with the Fund's Actuary the Fund has produced an Admissions Policy. The Admissions Policy covers acceptance, on-going treatment and cessation of admitted bodies. This is to ensure that a considered and consistent approach to the admission of new employers to the Fund can be followed. To view the Admissions Policy please select the following link: <http://www.yourpension.org.uk> - [select Employer Guides](#)

# Investment Strategy Statement

The Local Government Pensions Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 came into force in November 2016 and guidance was issued by the Department for Communities and Local Government (DCLG) in September 2016.

Under Regulation 7 - The authority's Investment Strategy Statement (ISS) must show:

- a) money invested in a wide variety of investments;
- b) the suitability of particular investments and types of investments;
- c) risk, including the ways in which risks are to be measured and managed;
- d) its approach to pooling investments, including the use of collective investment vehicles and shared services;
- e) how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisations of investments;
- f) a policy on the exercise of the rights (including voting rights) attaching to investments.

The ISS has been formulated after taking advice from the Funds investment advisors Hymans Robertson LLP and in accordance with guidance issued by DCLG. The ISS was last adopted in November 2017 and subsequently has been continually updated as the investment strategy was being implemented. The ISS was revised to incorporate all the prior changes adopted during strategy implementation in early February 20.

In line with LGPS (Management and Investment of Funds) Regulations 2016 Section 7 (5) the authority consulted with participating stakeholders and the consultation was closed on the 16 March 2020.

The updated ISS was included in the Pension Committee agenda for the 17 March 2020 meeting but this was postponed due to the introduction of working restrictions regarding COVID 19. This was presented and agreed at the Pensions committee held on the 29 July 2020.

Since the LGPS (Management and Investment of Funds) Regulations 2016 came into force it is no longer a statutory requirement to publish its compliance against the **Myners principles** alongside the ISS. Publication is therefore voluntary.

In demonstrating best practice the Fund has published its compliance against the Myners principles, having regard to CIPFA's guide to the application of the Myners Principles 'investment decision making and disclosure' in December 2009.

The ISS together with the Myners compliance table can be found in the appendices at the back of the report.

This ISS and the Myners compliance table have also been published on the Authority's website by selecting the link [Havering Pension Fund](#).

The Authority undertakes regular reviews of the above statement and will consider any comments you may have for future reviews. Please forward comments to the contact point designated on [page 105](#) of this report.

# Communication Policy Statement

The Local Government Pension Scheme Administration Regulations 2015 requires the administering authority to prepare and publish a written statement covering communications with scheme members and employing authorities.

The statement must set out the policy concerning:

- communications with members, representatives, prospective members and employing authorities
- format, frequency and method of distributing such information or publicly
- The promotion of the scheme to prospective members and their employers

This statement is reviewed periodically. A revised Communications Policy Statement was approved at the Pension Committee on 13<sup>th</sup> November 2018 for the period 2018 – 2021. A review of the Communication Strategy achievements for 2019/20 is shown below.

The Communications Strategy for 2018 -21 can be found in the appendices at the back of this report.

This Statement has also been published on the Authority's website by selecting the link <http://www.yourpension.org.uk> - [Select Other Pension Fund documents](#)

## Communication Policy Delivery

Action	Audience	Media	End of Year Review 2020
Review and update the pension website <a href="http://www.yourpension.org.uk/handr">www.yourpension.org.uk/handr</a>	All	Web	Forms, Factsheets and Policies have been reviewed, amended and uploaded in line with regulatory changes. Contact details and links have been checked regularly.
Promote the use of the pension website <a href="http://www.yourpension.org.uk/handr">www.yourpension.org.uk/handr</a>	All	Web	The website is promoted on all member correspondence and at all face to face meetings. We have also utilised corporate communications to increase awareness.
Promote My Pension Online – Member Self Service	Active and Deferred	Web	Member Self Service (MSS) is promoted to all new members to the pension scheme. We have also utilised corporate communications to increase awareness. This has been discussed at all member presentations given throughout the year. At the end of March 2020 12.6% of active and deferred membership had registered for MSS.
Explore the development of My Pensions Online – Member Self Service for pensioner members	Pensioner	Web	Basic information is now available to our pensioner members. They are able to update contact details and view any Expression of Wish details held.
Ensure relevant, accurate and timely communications are sent to all members	All	Paper or electronic	Standard communications are monitored as part of the KPI monitoring process.

### Communications with Prospective Scheme Members

Action	Audience	Media	End of Year Review 2020
Ensure pension forms are included in starter packs	New employees	Paper	Following a review of this process, forms are no longer included with new contracts. However the link to the pension's website is provided within the starter packs along with confirmation they will be enrolled into the pension scheme.
Review and update the pension website Yourpension.org.uk/handr	All	Web	Forms, Factsheets and Policies have been reviewed, amended and uploaded in line with regulatory changes. Contact details and links have been checked regularly
Work with employer to ensure automatic enrolment is correctly communicated	Existing employee	Paper or electronic	During 2019/20 LB Havering reached their re-enrolment date. All prospective scheme members received timely communications, including an Automatic re-enrolment Factsheet that is also available on the pensions website

### Communications with Scheme Employers

Action	Audience	Media	End of Year Review 2020
Maximise the use of the newly developed ERM employer communication database on Altair	Employers	System	The LPP use their own Client Relationship Manager database which is monitored and maintained centrally.
Meet with all new scheme employers to discuss responsibilities and requirements	Employers	Face to face	No face to face meetings were carried out but all relevant information was sent via email
Review and update the pension website	Employer	Web	Forms, Factsheets and Policies have been reviewed, amended and uploaded in line with regulatory changes. Contact details and links have been checked regularly.
Work with LPP and Scheme employers to implement Your Fund secure portal.	Employer	Web	The use of Your Fund has been promoted to employers and a guide has been issued. The majority of employers are now signed up and we will continue to monitor its use to ensure employer compliance.
Work with LPP and Scheme employers to ensure accurate and timely data submissions	Employer	Email, phone calls or face to face	Continued promotion of the Your Fund secure portal continues to improve the flow of information.



## Communications with Representatives of Members

### 1. Pensions Committee

Action	Audience	Media	End of Year Review 2020
To submit Committee reports in line with the annual plan and as and when required	Pensions Committee Members	Paper and web	All relevant reports were submitted and presented to Committee and uploaded onto the Havering Website
To arrange required training as and when required	Pensions Committee Members	Face to Face	Various training was provided to all Committee members during the year

### 2. Local Pensions Board

Action	Audience	Media	End of Year Review 2020
To submit reports in line with the Board work plan and any additional areas identified at meetings	Local Pension Board	Paper and web	All relevant reports were submitted and presented to the Local Pension Board and uploaded onto the Havering Website
To arrange required training as and when required	Local Pension Board	Face to Face and online	Induction training has been provided to new Board member and information regarding external training courses has been circulated.

### 3. Havering and OneSource Managers

Action	Audience	Media	End of Year Review 2020
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	All relevant reports have been written and submitted in line with the Council's Constitution
To ensure the provision of employer estimates is in line with the contractual agreement	HR and Heads of Service	Paper or email	Estimates have been supplied in line with contractual agreements for 100% of requests. This is continually monitored to ensure the flow of information is secure and efficient.

The pension website is promoted on the staff intranet at the Council and in posters placed on staff notice boards in all Council buildings to ensure information on the pension scheme is accessible and available to everyone, not just scheme members. It is also advertised on payslips produced by oneSource Payroll Services on a regular basis.

The website provides links to relevant external agencies.

The Council jobs page includes, within the General Conditions of Employment, relevant for all potential and actual applicants, information on the Local Government Pension Scheme.

Replace with Mar 20 statement

# External Audit Opinion

## INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF HAVERING ON THE PENSION FUND FINANCIAL STATEMENTS

### Opinion

We have examined the pension fund financial statements for the year ended 31 March 2019, which comprise the Fund Account, the Net Assets Statement and the related notes.

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Havering for the year ended 31 March 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

### Respective responsibilities of the Chief Operating (Section 151) Officer and the auditor

As explained more fully in the Statement of the Chief Operating (Section 151) Officer's Responsibilities, the Chief Operating (Section 151) Officer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of the London Borough of Havering, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only the:

- Trustee Report
- Financial Performance Report
- Investment Policy and Performance Report
- Scheme Administration
- Actuarial Report on Funds
- Fund Account and Net Assets Statement
- Asset Pools
- Pension Administration Strategy Report
- Funding Strategy Statement
- Investment Strategy Statement
- Communication Policy Statement
- Contact Points for Further Information

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinions on those financial statements.

A handwritten signature in black ink, appearing to read 'Debbie Hanson', followed by a vertical line.

Debbie Hanson (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Luton 7 November 2019

# Contact Points for Further Information

If you have any queries on the benefits or costs of membership of the Pension Fund please contact:

Local Pensions Partnership (LPP)  
PO Box 1383  
Preston  
PR2 OWR

Telephone: 0300 323 0260

Email: [askPensions@localpensionspartnership.org.uk](mailto:askPensions@localpensionspartnership.org.uk)

For further information on issues relating to Fund Investments and Accounts, or feedback on any of the contents in this report please contact:

Debbie Ford  
Pension Fund Accountant  
Central Library, 1<sup>st</sup> Floor  
Romford  
RM1 3AR

Telephone: 01708 432569

Email: [PensionsFinance@haverling.gov.uk](mailto:PensionsFinance@haverling.gov.uk)

## Other useful addresses:

National Local Government Pension Scheme website: <https://www.lgpsmember.org/>

London Borough of Havering Local Government Pension Scheme website:  
<http://www.yourpension.org.uk/handr/Home.aspx> (site managed by the London Pension Fund Authority)

The Pension Service website: [www.thepensionservice.gov.uk](http://www.thepensionservice.gov.uk)  
[www.gov.uk/browse/working/state-pension](http://www.gov.uk/browse/working/state-pension)

# **APPENDICES**



**Havering**  
LONDON BOROUGH

## **PENSION FUND**

# **GOVERNANCE COMPLIANCE STATEMENT**

**Updated November 2019**

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

### Contents

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## 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](http://www.Yourpension.org.uk).

## 2. MEMBERSHIP AND REPRESENTATION

### 2.1 Pensions Committee

Since May 2019, the membership of the Pensions Committee reflects the political balance of the Council and consists of seven councillors as listed below:

<b>Conservative Group (3)</b>	<b>Resident's Group (1)</b>	<b>Upminster &amp; Cranham Residents' Group (1)</b>	<b>North Havering Residents' Group (1)</b>	<b>Labour Group (1)</b>
John Crowder (Chair) Osman Dervish Jason Frost	Stephanie Nunn	Ron Ower	Martin Goode (Vice chair)	Keith Darvill

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.

Representatives are shown below:

<b>Admitted/Scheduled bodies representatives</b>	<b>Trade Union Observers</b>
Vacant	Andy Hampshire (GMP) Derek Scott (UNISON)

Longevity in membership of the Committee is encouraged in order to ensure that expertise is maintained within. The Council recommends that the membership of the Pension Committee remain static for the full term of elected office 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 then 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 shall serve for a fixed four year period which can be extended for further period (s) subject to re-nomination 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 (Interim) 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 on a rotational basis. Only one fund manager will attend each committee meeting to give greater focus to investment strategy development. Mandates that operate within the London Collective Investment Vehicle (LCIV) are now managed 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 non-attendance.

Reasonable travelling expenses for training will be reimbursed.

## **5. TRAINING**

### **5.1 Pensions Committee**

Associated training aligned with the Pensions Committee's forward 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. Two members constitute quorum providing that there is present at least one member from both the Employer and Scheme Member Groups. 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 Secretary of State.

PRINCIPLE	HAVERING POSITION
A <b><u>Structure</u></b>  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.          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.          c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.   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.	<b>Full compliance.</b>
	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: <a href="#">Havering Constitution</a>          Section 1 the Governance Compliance Statement refers.
	<b>Full compliance.</b>  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.
	No secondary committee or panel has been established.
	No secondary committee or panel has been established.



PRINCIPLE	HAVERING POSITION
<b>B</b> <u><b>Committee Membership and Representation</b></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);	<b>Full compliance</b> - 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),	<b>Full compliance</b> – via trade union representation
iii) where appropriate, independent professional observers, and	<b>Non-compliance</b> – 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)	<b>Full compliance</b> – The Fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required.  Sections 2 and 3 of the Governance Compliance Statement refers.

	PRINCIPLE	HAVERING POSITION
C	<b><u>Selection and role of lay members</u></b>	
	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.	<p><b>Full compliance.</b></p> <p>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.</p> <p>Sections 1 and 2 of the Governance Compliance Statement refer.</p>
	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.	<p><b>Full compliance.</b></p> <p>Declarations of interest are always an agenda item at the Pension Committee meetings.</p> <p>Section 1 of the Governance Compliance Statement refers.</p>
D	<b><u>Voting</u></b>	
	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.	<p><b>Full compliance.</b></p> <p>The Governance Compliance Statement is clear about voting rights</p> <p>Section 2 of the Governance Compliance Statement refers.</p>
E	<b><u>Training/Facility time/Expenses</u></b>	
	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.	<p><b>Full compliance.</b></p> <p>Member's expenses and allowances are laid out in the Council's Constitution (Part 6). Local Pension Board members will receive an allowance per scheduled meeting attended, at the same rate paid to co-opted members' for</p>

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

PRINCIPLE	HAVERING POSITION
<b>F</b> <u><b>Meetings (frequency/quorum)</b></u>	
a. That an administering authority's main committee or committees meet at least quarterly	<b>Full compliance.</b> The Pension Committee meets five times a year and occasionally holds extra meetings if and when required. Section 6 of the Governance Compliance Statement refers.
b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the committee sits.	No secondary committee or panel has been established.
c. That an administration authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which interests of key stakeholders can be represented.	<b>Full compliance.</b> Membership on the Pensions Committee includes a representative to serve all Admitted/Scheduled bodies. Representatives also sit on the Local Pension Board.  The current forums for which stakeholders interests can be represented are: <ul style="list-style-type: none"> <li>• Through invitation to committee meeting</li> </ul> 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	<b><u>Access</u></b>	
	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.	<b>Full compliance.</b> 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	<b><u>Scope</u></b>	
	a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	<b>Full compliance.</b> The Committee already considers a wider range of pension issues.  Section 7 of the Governance Compliance Statement refers.
I	<b><u>Publicity</u></b>	
	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.	<b>Full compliance.</b> Governance arrangements are published on the Council's website and comments are invited from stakeholders.  Section 8 of the Governance Compliance Statement refers.



# Havering

L O N D O N   B O R O U G H

## **HAVERING PENSION FUND COMMUNICATION 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 2020
Review and update the pension website <a href="http://www.yourpension.org.uk/handr">www.yourpension.org.uk/handr</a>	All	Web	Forms, Factsheets and Policies have been reviewed, amended and uploaded in line with regulatory changes. Contact details and links have been checked regularly.
Promote the use of the pension website <a href="http://www.yourpension.org.uk/handr">www.yourpension.org.uk/handr</a>	All	Web	The website is promoted on member correspondence and at all face to face meetings. We have also utilised corporate communications to increase awareness.
Promote My Pension Online – Member Self Service	Active and Deferred	Web	Member Self Service is promoted to all new members to the pension scheme. We have also utilised corporate communications to increase awareness. This has been discussed at all member presentations given throughout the year.
Explore the development of My Pensions Online – Member Self Service for pensioner members	Pensioner	Web	Basic information is now available to our pensioner members. They are able to update contact details and view any Expression of Wish details held. At the end of March 2020 12.6% of active and deferred membership had registered for MSS.
Ensure relevant, accurate and timely communications are sent to all members	All	Paper or electronic	Standard communications are monitored as part of the KPI monitoring process.



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

<b>Communication</b>	<b>Media</b>	<b>Frequency of Issue</b>	<b>Distribution</b>	<b>Audience</b>
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	1 <sup>st</sup> pension payment and every April, May and October	Post to home address	Pensioner

<b>Communication</b>	<b>Media</b>	<b>Frequency of Issue</b>	<b>Distribution</b>	<b>Audience</b>
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 pension's 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 2020
Ensure pension forms are included in starter packs	New employees	Paper	Following a review of this process, forms are no longer included with new contracts. However the link to the pensions website is provided within the starter packs along with confirmation they will be enrolled into the pension scheme
Review and update the pension website Yourpension.org.uk/handr	All	Web	Forms, Factsheets and Policies have been reviewed, amended and uploaded in line with regulatory changes. Contact details and links have been checked regularly

Action	Audience	Media	End of Year Review 2020
Work with employer to ensure automatic enrolment is correctly communicated	Existing employee	Paper or electronic	During 2019/20 LB Havering reached their re-enrolment date. All affected staff received timely communications and tPR reports were submitted

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 pension's 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 2020
Maximise the use of the newly developed ERM employer communication database on Altair	Employers	System	The LPP use their own Client Relationship Manager database which is monitored and maintained centrally.
Meet with all new scheme employers to discuss responsibilities and requirements	Employers	Face to face	No face to face meetings were carried out but all relevant information was sent via email
Review and update the pension website	Employer	Web	Forms, Factsheets and Policies have been reviewed, amended and uploaded in line with regulatory changes. Contact details and links have been checked regularly.

Action	Audience	Media	End of Year Review 2020
Work with LPP and Scheme employers to implement Your Fund secure portal.	Employer	Web	The use of Your Fund has been promoted to employers and a guide has been issued. The majority of employers are now signed up and we will continue to monitor its use to ensure employer compliance
Work with LPP and Scheme employers to ensure accurate and timely data submissions	Employer	Email, phone calls or face to face	Continued promotion of the Your Fund secure portal has improved the flow of information.

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 <a href="http://yourpension.org.uk/handr">yourpension.org.uk/handr</a>	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 pension's 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 2020
To submit Committee reports in line with the annual plan and as and when required	Pensions Committee Members	Paper and web	All relevant reports were submitted and presented to Committee and uploaded onto the Havering Website
To arrange required training as and when required	Pensions Committee Members	Face to Face	Various training was provided to all Committee members during the year

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



Communication	Media	Frequency of Issue	Distribution	Audience
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](http://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 2020
To submit reports in line with the Board work plan and any additional areas identified at meetings	Local Pension Board	Paper and web	All relevant reports were submitted and presented to the Local Pension Board and uploaded onto the Havering Website

Action	Audience	Media	End of Year Review 2020
To arrange required training as and when required	Local Pension Board	Face to Face and online	Induction training has been provided to new Board member and information regarding external training courses has been circulated.

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 2020
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	All relevant reports have been written and submitted in line with the Council's Constitution
To ensure the provision of employer estimates is in line with the contractual agreement	HR and Heads of Service	Paper or email	Estimates have been supplied in line with contractual agreements for 100% of requests. This is continually monitored to ensure the flow of information is secure and efficient

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.

# London Borough of Havering Pension Fund

Funding Strategy Statement

December 2019

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## Funding Strategy Statement

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# 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 2020**.

## 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;
- 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, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. 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](mailto:Debbie.Ford@oneSource.co.uk) or on telephone number 01708 432569.

## 2 Basic Funding issues

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

### 2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

- Calculate the funding target for that employer, i.e. the estimated 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;
- 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;
- Calculate the employer contribution rate such that it has a predetermined minimum likelihood of achieving that funding target over that time horizon, allowing for 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 an allowance for 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 is in respect of benefits already accrued at the valuation date. 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.

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 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 and are referred to as transferee admission bodies as set out below.

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 calculated 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). 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 the period over which the funding target is achieved. 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 **likelihood 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, then the required likelihood 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 funding level 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 funding level and deficit/surplus 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, funding levels and deficits/surpluses are short term, high level risk 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.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, covenant assessment, etc.

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 likelihood 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 time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

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

## 2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However, it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

[The LGPS Scheme Advisory Board \(SAB\) issued advice to LGPS funds in May 2019](#). As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to make no allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation.

The Fund has taken the following action:

- Reserved additional prudence within the discount rate. As at 31 March 2019, the Fund's investment strategy had a greater than 80% likelihood of delivering 3.3% p.a. Had there not been any risks associated with McCloud, the Fund would have considered a lower likelihood of success; and
- Increased the pace of funding. When setting the funding plans for scheduled bodies, the Fund has determined contributions allowing for a higher probability of employer's meeting their funding targets over their respective time horizons. For instance, the Council rate has been set such that there is at least a 67% likelihood of being fully funded (as opposed to 60% previously). Academies have target 75% (as opposed to the 70% which was the proposed target before McCloud risks were introduced).

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table [3.3](#) for further information.

## 2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a [consultation](#) seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

## 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 likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "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, with advice from the actuary, may 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 likelihood 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 result in a lower level of future investment returns on the employer's asset share. 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	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 <a href="#">Appendix E</a> )		Ongoing, but may move to “gilts exit basis” - see <a href="#">Note (a)</a>		Contractor exit basis, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )	
Primary rate approach	(see <a href="#">Appendix D – D.2</a> )					
Stabilised contribution rate?	Yes - see <a href="#">Note (b)</a>	No				
Maximum time horizon – <a href="#">Note (c)</a>	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 – <a href="#">Note (d)</a>	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	
Likelihood of achieving target – <a href="#">Note (e)</a>	60%***	70%***	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 – <a href="#">Note (f)</a>	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	<a href="#">Note (g)</a>	<a href="#">Note (h)</a>		<a href="#">Notes (h) &amp; (i)</a>	
Cessation of participation: exit debt/credit 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 calculation principles applied would be as per <a href="#">Note (j)</a> .		Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see <a href="#">Note (j)</a> .		Participation is assumed to expire at the end of the contract. Exit debt/credit calculated on the contractor exit basis, unless the admission agreement is terminated early by the contractor in which case the gilts exit basis would apply. The letting employer will be liable for future deficits and contributions arising. See <a href="#">Note (i) for further details.</a>	

\* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor’s assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in [note \(i\)](#).

\*\* The Administering Authority may reduce the required likelihood where a cessation is imminent.

\*\*\* Please see section 2.7

#### **Note (a) (Gilts exit 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. based on the return from 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 2022 valuation. 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 2020 for the 2019 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 period until the next formal valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between formal 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) (Likelihood 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 likelihood. A higher required likelihood 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 likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood 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:

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, for the purpose of setting contribution rates, those of the other academies in the MAT;

- i. 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;
- ii. 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 assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion. Therefore, new academies may start with a deficit, depending on market conditions, which will be recovered over the same period as the ceding council;
- iii. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section [3.3](#) above; and
- iv. It is possible for an academy to leave one MAT and join another. If this occurs, all active deferred and pensioner members of the academy will transfer to the new MAT. The Fund Actuary may need to reassess the contributions of both the former and new MAT in which the academy participates.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and Department for Education (DfE) guidance (or removal of the formal guarantee currently provided to academies by the DfE). 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 greater than expected rise in liabilities;
- 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 \(i\)](#).

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. In particular there are three different routes that such employers may wish to consider:

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 (or entitled to any surplus) 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 throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks “pass through” to the letting employer.

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. Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to the side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation.

Any risk sharing 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, following the LGPS (Amendment) Regulations 2018 which came into effect on 14<sup>th</sup> May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk sharing agreement has been put in place (please see [note \(i\)](#) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will:

- Where another employer in the Fund is the ultimate guarantor to the ceasing employer, there will be no adjustment for McCloud; and

- Where no other employer in the Fund is the ultimate guarantor to the ceasing employer (such as a single academy trust), the liabilities associated with the will have a loading applied. The loadings are 3% of any active liabilities transferring to another employer, 1% of any deferred liabilities and 0% of any pensioner liabilities.

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 surplus/deficit will normally be calculated using a “gilts exit 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 or contractor exit 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 or surplus. 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 may spread the 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 on the gilts exit basis, and would carry out the cessation valuation on the ongoing basis. Secondary contributions would be derived from this exit debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the gilts exit basis and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.



### 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.

The intention of any pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out (for instance by pooling across a number of employers).

On the other hand, it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Fund Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply. This would mean potentially very different (and in particular possibly much higher) contribution would be required from the employer in that situation.

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 each formal 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 covenant 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.

### 3.7 Ill health early retirement costs

Employers will usually have an 'ill health allowance'. The Fund monitors each employer's ill health experience on an 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 Ill health risk management

Each employer may elect to use external insurance which has been made available by the Fund. 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.

When an active member retires on ill health early retirement the claim amount will be paid directly from the insurer to the insured employer. This amount should then be paid to the Fund to allow the employer's asset share to be credited.

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.

#### 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.

In exceptional circumstances the Fund may permit an employer with no remaining active members and an exit debt 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.

### **3.9 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 'cash equivalent transfer values' of transferring members calculated using Government Actuary's Department guidance and factors in force at the point of transfer;
- 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 assumptions for future investment returns (described further in [Appendix E](#)) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying the ongoing basis include a margin for prudence, and are therefore 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](#)).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset valued. However, the Fund Actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### 4.4 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. In addition, the Administering Authority carries out an inter-valuation period assessment of the Fund's relative funding position, i.e. changes in the relationship between asset and liability values.

## 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 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 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, 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.

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 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 **19 November 2019** for comment;
- b) Comments were requested by **20 December 2019**;
- c) Following the end of the consultation period the FSS was updated where required and then published, on 27 January 2020.

### A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the Councils website, at <https://www.havering.gov.uk/pensionfundingstrategystatement> and
- Published on the Pensions website, at <http://www.yourpension.org.uk/handr/Havering-Publications/Havering-Fund-Employers.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 every formal valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

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

<http://www.yourpension.org.uk/handr/Havering-Publications/Havering-Fund-Employers.aspx>

<https://www.havering.gov.uk/pension>



## 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. MHCLG (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 and contribution rates over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure four key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>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.</p>
Effect of possible increase in employer's	An explicit stabilisation mechanism has been agreed

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
contribution rate on service delivery and admission/scheduled bodies	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	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <a href="#">3.9</a>).</p>
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.
Effect of possible asset underperformance as a result of climate change	<p>Explicitly consider ESG issues when setting the overall funding and investment strategies.</p> <p>Carry out scenario testing on potential Government policy changes when evaluating funding and investment strategies.</p>

### **C3 Demographic risks**

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>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.</p>
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	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
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

Risk	Summary of Control Mechanisms
	<p>is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <a href="#">Note (b)</a> to <a href="#">3.3</a>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <a href="#">Note (f)</a> to <a href="#">3.3</a>) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

#### 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.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The Administering Authority is monitoring the progress on any settlement as a result of the McCloud ruling and will consider an interim valuation or other appropriate action once more information is known.</p> <p>Explicit allowance has been made in Employer funding plans to help manage the potential effects of McCloud.</p> <p>The Government's long term preferred solution to GMP indexation and equalisation – conversion of GMPs to scheme benefits – was built into the 2019 valuation.</p>
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see <a href="#">Section 5</a> ).	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.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

## C5 Governance risks

Risk	Summary of Control Mechanisms
<p>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.</p>	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
<p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</p>	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p>	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see <a href="#">Notes (h)</a> and <a href="#">(i)</a> to <a href="#">3.3</a>).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p>

Risk	Summary of Control Mechanisms
	<p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <a href="#">Note (f)</a> to <a href="#">3.3</a>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <a href="#">Note (a)</a> to <a href="#">3.3</a>).</p>
An employer ceasing to exist resulting in an exit credit being payable.	<p>The Administering Authority regularly monitors admission bodies coming up to cessation and adjusts funding plans to reduce the risk of any deficit or surpluses at exit.</p> <p>The Administering Authority invests in liquid assets which can be realised to meet any exit credits as and when required.</p>

## Appendix D – The calculation of Employer contributions

As discussed in [Section 2](#), the actuary calculates the required contribution rate for each employer using a three-step process:

- Calculate the funding target for that employer, i.e. the estimated 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;
- 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;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in [3.3 Note \(e\)](#) for more details.

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 assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. 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 likelihood, 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 (the “Economic Scenario Service”) 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. Further information about this model is included in [Appendix E](#). The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target (at the end of the time horizon) is equal to the required likelihood.

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 Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate 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. at the end of the determined time horizon (see [3.3 Note \(c\)](#) for further details);
3. with a sufficiently high likelihood, 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 the Economic Scenario Service. The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target (at the end of the time horizon) is equal to the required likelihood.

### **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 at the end of the time horizon;
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 likelihood of achieving the funding target.

## **D5 How is each employer's asset share calculated?**

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore, it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

- 1) A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.
- 2) A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers. Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

Using the cashflow approach, the Fund Actuary tracks employer assets on an annual basis. Starting with each employer's assets from the previous year end, the Fund Actuary allows for cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the year to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers' asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

## **D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?**

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) which has been derived by the Fund Actuary.

## Appendix E – Actuarial assumptions

### E1 What are the actuarial assumptions used to calculate employer contribution rates?

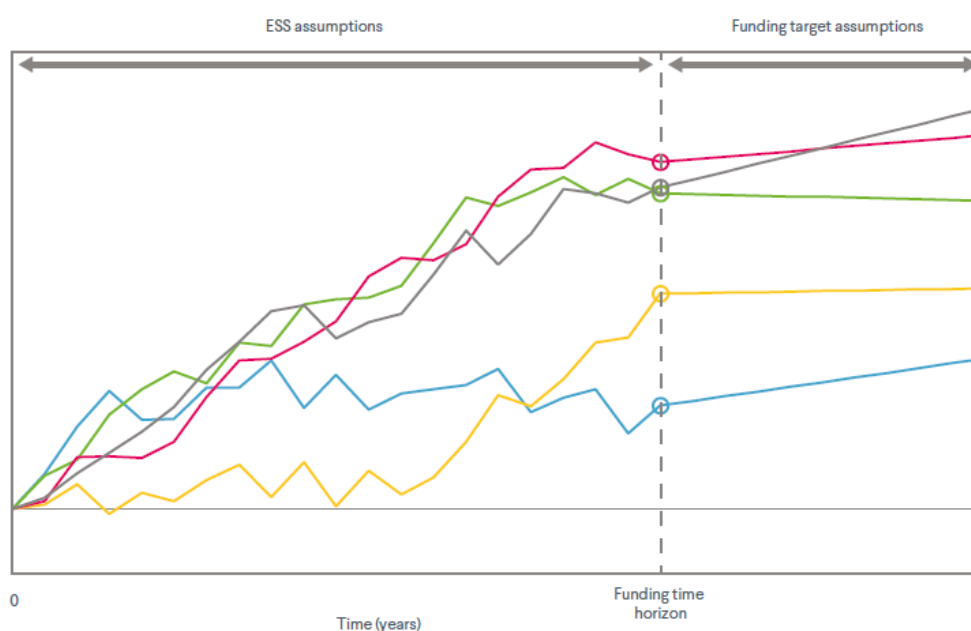
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). 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 funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer’s assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer’s required likelihood) being successful at the end of the employer’s time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer’s assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”).
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases (described in E3 below).



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

## E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns							RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)			
5 years	16th %ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

## E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the “discount rate”)

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	Ongoing basis	Contractor exit basis	Gilts exit basis
<b>Employer type</b>	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
<b>Investment return assumption underlying the employer's funding target (at the end of its time horizon)</b>	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.8% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

#### **E4 What other assumptions apply?**

The following assumptions are those of the most significance used in both the projection of the assets, cashflows and in the funding target:

##### **a) Salary growth**

5. After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2021, followed by
2. The retail prices index (RPI) p.a. thereafter.

This gives a single "blended" assumption of RPI less 0.3%. This is a change from the previous valuation, which assumed a blended assumption of RPI less 0.7%. This change has led to an increase in the funding target (all other things being equal) when compared to the 2016 valuation.

##### **b) 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. At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI (please note, the reduction is applied on a geometric, not arithmetic, basis).

##### **c) 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.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 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 updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

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.

#### **d) General**

The same financial assumptions are adopted for most employers (on the ongoing basis identified above), 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

<b>Funding basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
<b>Admission Bodies</b>	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 <a href="#">2.3</a> ).
<b>Bond Indemnity</b>	<p>To cover early termination of a contract due to, but not limited to,</p> <ul style="list-style-type: none"><li>• 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;</li><li>• any general funding shortfall, arising from variations between experience and assumptions used when determining the ongoing Employer's contribution rate; and</li><li>• a provision to cover the potential liability due to adverse market conditions over the period until the next actuarial valuation.</li></ul> <p>This bond does not cover any final cessation payments at the end of a contract.</p>
<b>Cessation Valuation</b>	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 or exit credit due to the employer. The final contribution or exit credit due may be subject to a 'pass-through' arrangement with the scheme employer.
<b>Covenant</b>	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.
<b>Designating Employer</b>	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.
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .

<b>Gilt</b>	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 are also used in funding as an objective measure of a risk-free rate of return.
<b>Guarantee / guarantor</b>	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 <b>covenant</b> to be as strong as its guarantor’s.
<b>Letting employer</b>	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.
<b>LGPS</b>	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 100 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.
<b>Maturity</b>	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.
<b>Members</b>	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).
<b>Pass-through</b>	A risk sharing agreement between the letting employer and the contractor.
<b>Primary contribution rate</b>	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.
<b>Profile</b>	The profile of an employer’s membership or liability reflects various measurements of that employer’s <b>members</b> , 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 <b>maturity</b> also.



**Rates and  
Adjustments  
Certificate**

A formal document required by the LGPS Regulations, which must be updated 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 period until the next valuation is completed.

**Scheduled Bodies**

Types of employer explicitly defined in the LGPS Regulations, whose employees 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. .

**Valuation**

A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information for a Fund, and usually individual employers too.



**Havering**  
LONDON BOROUGH

## **INVESTMENT STRATEGY STATEMENT**

## **Investment Strategy Statement July 2020**

### **1. Introduction and background**

- 1.1 This is the Investment Strategy Statement (“ISS”) of the London Borough of Havering Pension Fund (“the Fund”), which is administered by Havering Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).
- 1.2 The ISS has been prepared by the Fund’s Pension Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP and having regard to guidance issued by the Ministry for Housing, Communities and Local Government (MHCLG). The Committee acts on the delegated authority of the Administering Authority.
- 1.3 In order to guide the ongoing development of its investment strategy, the Committee has considered and agreed a series of investment beliefs. These beliefs are set out in Appendix 1.
- 1.4 The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.
- 1.5 The Committee seeks to invest, in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement (dated December 2019).
- 1.6 The ISS was approved by the Committee on 29 July 2020.

### **2. The suitability of particular investments and types of investments**

- 2.1 The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund’s members under the Local Government Pension Scheme. Against this background, the Fund’s approach to investing is to:
  - Optimise the return consistent with a prudent level of risk;
  - Ensure that there are sufficient resources to meet the liabilities; and
  - Ensure the suitability of assets in relation to the needs of the Fund.
- 2.2 The Fund’s funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.
- 2.3 The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed, but will take account of future salary and/or inflation increases.
- 2.4 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. It plays an important role in meeting the longer-term cost of funding, and how that cost may vary over time. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities. This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

- 2.5 It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.
- 2.6 Within each major market the Fund's investment managers will maintain a diversified portfolio of securities through direct investment or via pooled vehicles. For direct investments, an Investment Management Agreement is in place for each investment manager, which sets out the relevant benchmark, performance target and asset allocation ranges, together with further restrictions. For pooled vehicles, appropriate governing documentation is in place for each pooled fund.
- 2.7 The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:
- Suitability given the Fund's level of funding and liability profile;
  - The level of expected risk;
  - Outlook for asset returns.
- 2.8 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The Committee has adopted a rebalancing policy which is triggered if the Fund's asset allocation deviates by 5% or more from the strategic allocation.
- 2.9 In order to avoid excessive rebalancing, the assets will not be brought back to the absolute strategic benchmark, but to a position that is approximately half way between the tolerance level and the target allocation. This also takes into consideration that there is a time lag between reporting a variance, and the rebalancing of the funds.
- 2.10 If rebalancing is triggered, the assets will be rebalanced back to within 2.5% of the strategic asset allocation.
- 2.11 In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Pensions Committee may decide to suspend rebalancing temporarily. The priority order for funding rebalancing is to first use surplus cash, followed by dividend and or interest income and lastly using sales of overweight assets. The Pensions Committee will seek the written advice of the investment adviser with regard to rebalancing and detailed distribution of cash or sale proceeds.

### **3 Investment of money in a wide variety of investments**

#### **Asset classes**

- 3.1 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.
- 3.2 The Committee reviews the nature of the Fund's investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.
- 3.3 The Fund's target investment strategy is set out in Table 1 below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value

of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

**Table 1: Strategic benchmark allocation**

Asset class	Benchmark Proportion %	Maximum %
<b>Global Equity</b>	40.0	45.0
<b>Multi Asset</b>	22.5	40.0
<b>Property</b>	10.0	15.0
<b>Infrastructure</b>	7.5	15.0
<b>Bonds &amp; Cash</b>	20.0	25.0
Total	100.0	

- 3.4 At 31 December 2019, the expected return of this portfolio over a 20-year time horizon was 5.0%p.a. with an expected volatility of 12.9%p.a. This volatility includes an assumed diversification benefit. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

## Managers

- 3.5 The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.
- 3.6 The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The current manager benchmarks are set out in Appendix 2 to this Statement. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects the composition of their respective benchmark indices.

## 4 Risk management

- 4.1 The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has a risk management programme in place that aims to help it identify the risks being taken and has put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.
- 4.2 The principal risks affecting the Fund are set out below. We also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

### Funding risks

- 4.3 Asset values may not increase at the same rate as liabilities with an adverse impact on the funding position. A Funding Strategy Statement ("FSS") is prepared every three years as part of the triennial valuation and the Committee monitors the Fund's investment strategy and performance relative to the growth in the liabilities at mid-cycle to the triennial valuation. The following key risks have been identified:

- **Financial mismatch:** The Committee recognises that assets and liabilities have different sensitivities to changes in financial factors. To mitigate the risk an investment strategy is set which provides exposure to assets providing inflation protected growth as well as cash flow generating assets that match the Fund's liabilities.
- **Changing demographics:** This relates to the uncertainty around longevity. The Council recognises there are effectively no viable options to mitigate these risks and assesses the impact of these factors through the Funding Strategy Statement and formal triennial actuarial valuations.
- **Systemic risk:** The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

4.4 The Committee measures and manages financial mismatch in two ways:

- As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis will be revisited as part of the 2019 valuation process. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.
- The Committee also assesses risk relative to liabilities by monitoring the delivery of returns relative to a strategic benchmark. The current strategic benchmark is the return on index-linked Government bonds plus 1.8% per annum, which is consistent with the discount rate used by the Actuary to value the Fund's liabilities.

4.5 The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to the Committee's own views and the level of risks associated with these assumptions to be assessed.

4.6 The Committee seeks to mitigate systemic risk through a diversified portfolio but recognises that it is not possible to make specific provision for all possible eventualities that may arise under this heading.

### Asset risks

4.7 The Committee recognises that the Fund's investments are exposed to a range of asset specific risks which include:

- **Concentration risk:** This relates to the risk that the performance of a single asset class, investment or manager has a disproportionate influence on the Fund's performance. The Committee attempts to mitigate this risk by establishing a well-diversified strategic asset allocation, reviewing the investment strategy regularly and following a regular fund manager review process. The Fund's investment in multi-asset and absolute return mandates increases diversification further, with investment managers able to invest across the full spectrum of the investment universe in order to manage risk.
- **Liquidity risk:** Investments are held until such time as they are required to fund payment of pensions. The liquidity risk is being very closely monitored as the Fund matures (i.e. as the level of benefit outgo increases relative to the contributions received by the Fund). The Council manages its cash flows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met.

- **Currency risk:** The strategic asset allocation adopted by the Committee provides for an element to be held overseas to provide diversification and exposure to different economies. Such investment is however subject to fluctuations in exchange rates with an associated positive or adverse impact on performance.
- **Environmental, social and governance (“ESG”) risks:** The extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- **Manager risk:** Fund managers could fail to achieve the investment targets specified in their mandates. This is considered by the Committee when fund managers are selected and their performance is reviewed regularly by the Committee as part of the manager monitoring process.
- **Climate risk:** The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

4.8 The Fund’s strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund’s “actual allocation” does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund’s asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, the Committee has recognised the need for access to liquidity in the short term.

4.9 The Committee has chosen to manage currency risk as follows:

- Within equity mandates, the Committee has chosen to retain currency risk unhedged;
- Within multi-asset mandates, the managers employed have discretion to make use of currency exposure as a source of potential return although are mandated to deliver returns relative to a sterling objective. The Committee is therefore satisfied that currency risk is managed within these mandates but monitors currency exposures;
- Within real asset and private debt mandates, where overseas currency exposure arises, the Committee has chosen to hedge 100% of such currency exposure (subject to de minimis limits) given the expectation that income is a primary driver of return.

4.10 The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing a number of managers and making use of passive investment. The Committee assesses the investment managers’ performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

4.11 Details of the Fund’s approach to managing ESG and climate risks are set out later in this document.

#### **Other provider risks**

4.12 The Committee recognises that investment risk arises in the operational management of the Fund and have identified the following major risks:

- **Transition risk:** The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.

- **Custody risk:** The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- **Credit default:** This risk relates to the other party(s) in a financial transaction (the counterparty) failing to meet its obligations to the Fund. Where appropriate, the Committee has set guidelines with its fund managers and its custodian to limit its exposure to counterparty risk.
- **Stock-lending risk:** The possibility of default and loss of economic rights to Fund assets.

4.13 The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

4.14 A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

## 5 The approach to pooling

5.1 The Fund is a shareholder and a participating scheme in the London CIV Pool. The London CIV is authorised by the FCA as an alternative I investment Fund Manager with permission to operate a UK based Authorised Contractual Scheme Fund. The structure and basis on which the London CIV Pool will operate was set out in the July 2016 submission to Government.

5.2 The Fund's intention is to invest its assets through the London CIV Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the 2016 submission to Government. The key criteria for assessment of Pool solutions is as follows:

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
- That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

5.3 At the time of preparing this statement, 62.5% of the Fund's assets were invested through the Pool or through passive vehicles facilitated by the Pool as set out in Table 2 below:

**Table 2: Pool allocations**

Asset class	Invested through pool %	Retained outside pool %
Global Equity	35.0	-
Multi Asset	27.5	-
Property	-	10.0
Infrastructure	-	7.5
Bonds & Cash	-	20.0
Total	62.5	37.5



- 5.4 The Fund has committed 7.5% of its assets to private debt mandates that were procured on a collaborative basis in conjunction with other London LGPS funds.
- 5.5 The Fund holds 17.5% of the Fund in property and infrastructure assets and these will remain outside of the London CIV pool as the cost of exiting these strategies would have a negative financial impact on the Fund. These will be held until such time as a cost-effective means of transfer to the Pool is available or until the Fund changes asset allocation and makes a decision to disinvest.
- 5.6 Any assets not currently invested in the Pool will be reviewed at least annually to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

## **6 Approach to responsible investment including climate change considerations**

- 6.1 It is recognised that a range of factors, including ESG factors, can influence the return from investments. The Fund will therefore invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including ESG factors to the extent these directly or indirectly impact on financial risk and return. In making investment decisions, the Fund seeks and receives proper advice from internal officers and external advisers with the requisite knowledge and skills.
- 6.2 The Fund recognises that climate change is a systemic risk with the potential to directly impact economic, financial and social systems. Wherever possible, the Fund will directly consider the potential impact of climate risks on investment decision making within its investment portfolios.
- 6.3 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, climate and ethical considerations, into the decision-making process for all fund investments. Within passive mandates where the choice of index dictates the assets held by the investment manager and the manager has minimal freedom to take account of factors that may be deemed to be financially material, the Fund will review the index benchmarks employed for the Scheme on at least a triennial basis.
- 6.4 The Fund expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed. As a minimum, the Fund expects its managers (including the London CIV) to be signatories of the UN supported Principles for Responsible Investment and, where appropriate, the FRC UK Stewardship Code. The Fund will periodically review its managers' reporting against these standards, as well as other relevant industry standards, and will challenge its managers to improve their practices where the Fund deems it appropriate to do so.
- 6.5 The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of underlying investments with regard to the policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund such as corporate governance and environmental factors. The Fund will engage with its managers to understand what actions have been taken during regular review meetings.
- 6.6 Whilst the Fund expects that manager appointments in respect of new investments will be made through the London CIV, where the Fund makes its own appointments, responsible investment considerations will form a component of the manager selection decisions. The Fund will also encourage the London CIV to adopt best practice standards in the evaluation and monitoring of managers employed for investment.
- 6.7 Effective monitoring and identification of ESG issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be

addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes. Where appropriate, the Fund will work with the London CIV to promote collective engagement on behalf of all investors.

- 6.8 The Fund monitors the activity of its investment managers on an ongoing basis and will review the approach taken annually.

## **7 Consideration of non-financial factors and social investments**

- 7.1 At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee will review its approach to non-financial factors periodically, taking into account relevant legislation and the Law Commission's guidance on when such factors may be considered. Additionally, the Committee monitors legislative and other developments with regards to this subject and will review its approach in the event of material changes.
- 7.2 The Committee understands the Fund is not currently able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.
- 7.3 The Fund does not at the time of preparing this statement hold any assets which it deems to be explicit social investments; however, this ISS places no specific restrictions on the Fund in respect of such investments beyond those of suitability within the Investment Strategy as a whole and compatibility with the Committee's fiduciary duties. In considering any such investment in the future, the Committee will have regard to the Guidance issued by the Secretary of State and to the Law Commission's guidance on financial and non-financial factors.

## **8 Stewardship of assets**

- 8.1 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.
- 8.2 The Fund recognises that its equity assets are invested in pooled vehicles, it remains subject to the voting policies of the managers of these vehicles:
- Investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.
  - In respect of Fund investments outside the London CIV, the Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.
- 8.3 The Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation

7(2)(f). The Committee monitors the voting decisions made by all its investment managers and receive reporting from their advisers to support this on an annual basis.

- 8.4 The Committee will request its investment manager provide details of any change in policy on an annual basis. The Committee will review these changes and, where necessary, will challenge managers to explain the reasoning for any change.
- 8.5 The Committee reviews voting activity by its investment manager on an annual basis and may also periodically review managers' voting patterns. The Committee will challenge its managers to explain voting decisions on certain issues, particularly with regard to climate risk disclosure. The Fund will also incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council website.
- 8.6 At the time of production of the ISS the Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the Stewardship Code. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.
- 8.7 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to promote best practice by the CIV and enhance the level of engagement both with external managers and the underlying companies in which invests.

## **Appendix 1: Investment beliefs**

- 1 Clear and well-defined objectives are essential to reflect the Funds long-term strategic direction of travel and to help build a plan for achieving these objectives.
- 2 The Fund and its liabilities are long-term in nature and the Committee supports long term investing as a means of enhancing returns, reducing transaction costs, encouraging improved governance and delivering stable contribution rates.
- 3 Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.
- 4 Diversification between asset classes and regions is expected to provide greater stability to investment returns whilst diversification over many different managers needs to be balanced against the Committee's governance budget.
- 5 Returns net of fees and costs are more important than the absolute level of fees although investment managers' fees should be transparent and reviewed regularly.
- 6 Active management can add value although the performance of active managers should be measured over a sufficiently long investment horizon.
- 7 Benchmarks matter, particularly where they dictate the manner in which assets are invested.
- 8 Environmental, Social and Governance factors can pose financially material risks and it is incumbent on investment managers, where they have the discretion to do so, to ensure that such risks are reflected in decision making
- 9 Effective stewardship through informed voting and engagement can positively influence corporate behaviours although success is most likely to be achieved through greater collaboration
- 10 Climate change and the expected transition to a low carbon economy represents a long-term financial risk to Fund outcomes and should be considered as part of the Committee's fiduciary duty.
- 11 Decision making can be improved through the greater disclosure of information and the Fund should both support and demonstrate high standards of disclosure.
- 12 Excluding assets from portfolios for non-financial reasons is unlikely to be appropriate in the majority of circumstances.

## Appendix 2: Manager benchmark allocations

Mandate	Manager	Allocation	Benchmark/Target
<b>Equity</b>			
Global equities	LGIM	7.5%	FTSE All World Index
Fundamental Equity	LGIM	7.5%	FTSE RAFI All World 3000 Index
Emerging Market Equity	LGIM	5.0%	FTSE Emerging Markets Index
Global equities	LCIV	15.0%	MSCI ACWI + 2% p.a.
<b>Multi Asset</b>			
Absolute Return	LCIV	15.0%	Preserve and grow capital (LIBOR +4% p.a.)
Diversified Growth	LCIV	12.5%	Bank Base Rate +3.5% (net)
<b>Property</b>			
UK property	UBS GAM	6.0%	MSCI All Balanced Funds WA Index
Global property	CBRE GIP	4.0%	UK CPI + 5% p.a. (net of fees)
<b>Infrastructure</b>			
Infrastructure	Stafford Capital	3.5%	UK CPI + 5% p.a. (net of fees)
Infrastructure	JP Morgan	4.0%	UK CPI + 5% p.a. (net of fees)
<b>Bonds</b>			
Index Linked Gilts	Royal London AM	5.0%	Over 5 year index linked gilts index
Multi Asset Credit	Royal London AM	7.5%	LIBOR +4% p.a.
Private Debt	Churchill	3.0%	LIBOR +4% p.a.
Private Debt	Permira	4.5%	LIBOR +4% p.a.

Note that the table includes ongoing mandates only.

## **MYNERS Principles for Investment Decision Making**

**The Pensions Committee will regularly review the Fund's compliance with this Statement of Investment Principles.**

The Action the Council has taken to meet the recommendations made in the Myner's report was last updated in July 2020 and is available as an appendix to this statement.

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
<b>1. Effective decision-making</b>		
<b>Administrating authorities should ensure that :</b>		<b>SUMMARY: FULLY COMPLIANT</b>
<b>(a) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and</b>	1) Administering authorities should have a designated group of elected members appointed to a committee to whom responsibility for pension fund activities have been assigned.	A designated group of elected members, reflecting the political balance of the Council, have been appointed to a Pensions Committee who are responsible for pension fund functions, as specified in the Council's constitution (Part 2).
<b>(b) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest</b>	2) Roles of the officers with responsibility for ensuring the proper running of the administration authority's and the committee's business should be set out clearly. The rules drawn up should provide a framework for the committee's code of business and include a process for the declaration of conflicts of interest.	Roles of the officers with responsibility for the day to day running of the administering authority's and the committee's business is specified in the Council's constitution (Part 3). Declarations of interests are considered at the start of each committee meeting.
Page 389	3) The committee should be governed by specific terms of reference, standing orders and operational procedures that define those responsible for taking investment decisions, including officers and/or external investment managers.	The Pensions Committee is governed by specific terms of reference and is specified in the Council's constitution (Part 3), officer functions are also specified (Part 3).
	4) The process of delegation should be described in the constitution and record delegated powers relating to the committee. This should be shown in a public document, such as the statement of investment principles.	The delegation process for the day to day running of the pension scheme is specified in the Council's constitution (Part 3). The Council's constitution is available via the Council's website: <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> , follow links council, democracy and council, constitution of the council or select the link below. <a href="#">Havering - Library folder - Constitution</a>
	5) In describing the delegation process, roles of members, officers, external advisors and managers should be differentiated and specified.	Roles of members, officers, external advisors and managers are no longer required to be specified in the ISS
	6) Where possible, appointments to the committee should be based on consideration of relevant skills, experience and continuity.	Where possible, appointments made to the committee are based on consideration of relevant skills, experience and continuity.

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	7) The committee should ensure that it has appropriate skills, and is run in a way designed to facilitate effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals. The adoption of a training plan and an annual update of training and development needs would represent good practice to demonstrate that the committee is actively managing the development of its members. A statement should appear in the annual report describing actions taken and progress made.	Structured training of elected members ensures that members are proficient in investment issues. The Council incorporates training within its forward looking business plan for the fund. Forward looking business plan is presented at the first Pensions Committee meeting of the financial year and reported in the Pension Fund Annual Report. Members agreed to completing the CIPFA's Knowledge and Skills self-assessment of training needs. The training plan incorporates the outcomes of the self-assessments. Following the establishment of a Local Pension Board (LPB) a joint training strategy will be developed that will incorporate training of Pension Committee members with LPB members, where appropriate.
Page 390	8) The committee review its structure and composition regularly and provide each member with a handbook containing committee's terms of reference, standing orders and operational procedures. It is good practice to establish an investment or other subcommittee to provide focus on a range of issues.	Council recommends that the membership of the Pensions Committee remains static for the life of their term in office to facilitate knowledge continuity and helps to maintain expertise within the committee. Elected members are provided with a copy of their roles and responsibilities.
	9) The committee may wish to establish subcommittees or panels to take responsibility for progressing significant areas of activity between meetings.	The committee has not established any subcommittees as the Pensions Committee focuses only on the activities of the pension fund. The Council does have a pension panel that exercises discretions within the LGPS and deals with the Internal Dispute Resolution Procedure regulations.
	10) The committee should obtain proper advice from suitably qualified persons, including officers. The CFO should assess the need for proper advice and recommend to the committee when such advice is necessary from an external advisor. The committee should ensure that it has sufficient internal and external resources to carry out its responsibilities effectively.	The Pensions Committee has appointed two advisors – Investment advisor and Actuarial advisor. The Pension Fund Manager (finance) provides in house support to members. The Pension Committee is also supported by the Statutory Section 151 and the Council's Pension Administration and payroll sections. Internal and external resources are considered as part of the business plan.
	11) Allowances paid to elected members should be set out in a published allowances scheme and reviewed regularly.	Members of the Pensions Committee expenses are reimbursed in line with the Council's constitution (Part 6 - 'Members Allowance Scheme')



## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	12) Employees appointed as member representatives should be allowed adequate time off from normal duties to attend meetings.	Havering Council's conditions of service permits special leave up to a number of specified days for employees who act as a member of a publicly elected body.
	13) Papers and related documentation should be clear and comprehensive, and circulated to members of the committee sufficiently in advance of the meeting.	Committee policy established and ensures that target dates for report clearance and agenda dispatch targets are met. Members receive agendas five working days prior to meeting date.
	14) The <b>CFO</b> should be given the responsibility for the provision of a training plan and ensure that members are fully aware of their statutory & fiduciary duties.	The Training Plan is incorporated within the Business Plan and includes a log of training undertaken and attendance. Indicative future training plans are also included in the Business Plan.
Page 391	15) The <b>CFO</b> should ensure that a medium term business plan is created and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan should be submitted to the committee for consideration.	The Business Plan is considered by the Pensions Committee and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The Business Plan also incorporates the training plan.
	16) Business plan to review the level of internal and external resources the committee needs to carry out its functions.	Medium term Business Plan is considered by the Pensions Committee. The Business Plan includes the outcome of an internal review of resources, when appropriate.
	17) Administrating Authorities are required to prepare, publish and maintain statements of compliance against a set of good practice principles for scheme governance and stewardship.	The Pension Fund prepares, publishes and maintains a Governance compliance statement which shows the extent to which the administering authority complies with the principles and is reviewed annually.
	18) Administrating authorities are required to publish a Governance Compliance Statement in accordance with CLG guidance.	The Governance Compliance Statement is included within the Annual Report and is available on the Council's website: <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> (under Council, democracy and elections, council budgets and spending, then Pension Fund) or select the link to the pension's page below. <a href="#">Pension Fund Page</a>

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	19) The fund's Administration Strategy documents should refer to all aspects of the committee's activities relevant to the relationship between the committee and the employing authorities.	In line with regulations, the fund currently does not have an administration strategy; consideration of adopting this strategy is reviewed regularly.
<b>2. Clear objectives</b>		
		<b>SUMMARY: FULLY COMPLIANT</b>
	The committee should:	As part of the Valuation process consideration is given, with full consultation of the fund's actuary, to :
<b>(a) An overall investment objective (s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and these should be clearly communicated to advisors and investment managers.</b>	1) demonstrate that in setting an overall objective of the fund it has considered: the fund's liabilities in the context of expected net contribution inflows; the adequacy of the fund's assets to meet its liabilities; the maturity profile of the fund's liabilities and its cash flow situation.	the fund's liabilities in the context of the expected net contribution inflows; adequacy of the assets to meet its liabilities; maturity profile and its cash flows;
	2) consider the nature of membership profiles and financial position of the employers in the fund and decide, on the advice of actuaries, whether or not to establish sub funds.	membership profiles; financial position of the employers and whether or not to establish a sub fund;
	3) seek to include the achievement of value for money and efficiency in its objectives and all aspects of its operation	value for money;
	4) with the <b>CFO</b> need to give consideration to the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The responsibility of the actuary to keep employer contribution rates as constant as possible over time is the primary means of achieving this.	and the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time.
		The Fund's investment policies and objectives are laid out in the Funding Strategy Statement (FSS) and can be found on the Councils website, <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> , council, democracy and elections, council budgets and

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
		<p>spending, then pension fund or by selecting the link below.</p> <p><a href="#">Pension Fund Page</a></p>
	5) consider its own appetite for risk and that of the employers in the fund when considering advice on the mix of asset classes and on active and passive management. Consider all assets classes currently available to members.	The Pensions Committee considers, in consultation with the fund's investment advisor, its own appetite for risk when setting the investment strategy and considers the mix of asset classes and weighs up the risk v return in considering whether the assets are managed on a passive or active basis. The Investment Strategy currently includes a mix of different asset classes which are managed actively and passively.
Page 393	6) take proper advice and should appoint advisors in open competition and set them clear strategic investment performance objectives. The committee should state how the advisors' overall performance will be measured and the relevant short, medium and longer term performance measurement framework. All external procurement should be conducted within the EU procurement regulations and the administering authority's own procurement rules.	The Pensions Committee appoints external advisors in line with EU procurement rules and the administering authorities own procurement rules. The committee states how performance is to be measured for the advisors and a service review is undertaken and reported to the committee annually. At the 12 November 2019 pensions committee meeting it formally adopted the format as set out in the Pensions Regulator "trustee guide to: setting objectives for investment consultancy services" to comply with CMA "order" 2019
	7) also demonstrate that it has sought proper advice, including from specialist independent advisors, as to how this might be expressed in terms of the expected or required annual return on the fund and how it should be measured against stated benchmarks.	After full consultation with the Council's Actuary and Investment advisors a clear financial and therefore fully measurable investment objective for the fund has been set.
	8) consider when it would be desirable to receive advice based on an asset/liability study and make appropriate arrangements.	The Pensions Committee commission the fund's investment advisor and actuary to undertake an asset/liability study as appropriate, when compiling the investment strategy
	9) evaluate the split between equities and bonds before considering any other asset class. It should state the range of investments it is prepared to include and give reasons why some asset classes may have been excluded. Strategic asset allocations decision should receive a level of attention (and, where relevant,	All asset classes were considered as part of the investment strategy review process and the range of investments are included in the Fund's ISS.

### MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objectives.	
	10) have a full understanding of the transaction-related costs incurred, including commissions, and have a strategy for ensuring that these costs are properly controlled.	Transaction costs are disclosed in the statement of accounts. Havering Pension Fund is working towards encouraging ALL of its managers to adopt the voluntary adherence to the Transparency Code
	11) Understanding transaction-related costs should be a clear consideration in letting and monitoring a contract and where appropriate, independent and expert advice should be taken, particularly in relation to transition management.	Understanding transaction costs are considered and where appropriate expert advice would be sought. Costs are considered in the decision making process when any changes to the investment strategy are under discussion.
	12) The use of peer group benchmarks should be for comparison purposes only and not to define the overall fund objective.	The committee uses the services of State Street Global services (SSGS) (up to September 2019) and Northern Trust from the 1 October 2019 for independent monitoring of performance against benchmarks. Peer group benchmark performance provided by Pensions & Investment Research Consultants (PIRC) is used for comparison purposes only.
<b>3. Risk and liabilities</b>		
		<b>SUMMARY: FULLY COMPLIANT</b>
<b>a) In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</b>	The committee should:	
<b>b) These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</b>	1) set an overall investment strategy for the fund that: represents its best judgement of what is necessary to meet the fund's liabilities given its understanding of the contributions likely to be received from employer (s) and employees; takes account of the committee's attitude to risk, and specifically its willingness to accept underperformance due to market conditions.	A full investment strategy review was carried out following

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	2) ensure that its investment strategy is suitable for its objectives and takes account of the ability to pay of the employers in the fund.	the actuarial valuation results in 2016. The Fund has formulated its own asset allocation based on identified liabilities particular to the fund. The Fund's investment strategy was adopted having considered the members attitude to risks and are covered in the ISS and FSS. It is anticipated that small adjustments may be made to the ISS once the 2019 valuation results are finalised
	3) consider the extent to which the cash flow from the fund's assets should attempt to match the liabilities and the relevant timing. It should also consider the volatility of returns it is prepared to accept.	
	4) be aware of its willingness to accept underperformance due to market conditions. If performance benchmarks are set against relevant indices, variations in market conditions will be built in, and acceptable tolerances above and below market returns will be stated explicitly. Benchmarks are likely to be measured over periods of up to seven years.	The Fund in aggregate has a liability related benchmark (strategic benchmark). However for individual mandates, the fund managers have a specific benchmark (tactical benchmark) and a performance target that may be based on broad indices or composites. The targets are shown in the Fund's ISS.
	5) believe that regardless of market conditions, on certain asset classes, a certain rate of return is acceptable and feasible.	
	6) state whether a scheme specific benchmark has been considered and established and what level of risk, both active and market risk, is acceptable to it.	Specific benchmarks are considered as part of any investment strategy review and monitored on an on-going basis.
	7) receive a risk assessment in relation to the valuation of its liabilities and assets as part of the triennial valuations. Where there is reasonable doubt during performance monitoring of the fund about valuation of assets and liabilities the <b>CFO</b> should ensure that a risk assessment is reported to the committee, with any appropriate recommendations for action to clarify and/or mitigate the risks.	The Fund receives a risk assessment as part of the Valuation process with full consultation of the Fund's Actuary. Performance is monitored and reported to the committee on a quarterly basis and includes recommendations for action where appropriate. Liabilities are considered as part of the triennial valuations and mid valuations, however cash flow is monitored monthly and reported to committee quarterly.
	8) at the time of the triennial valuations, analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities. The committee should also ask this question of its actuaries and other advisors during discussions on performance.	

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	9) use reports from internal and external auditors to satisfy itself about the standards of internal control applied to the scheme to its administration and investment operations. Ensuring effective internal control is an important responsibility of the CFO.	The external auditors' opinion is included in the Pension Fund Annual Report. Internal control audits for pensions are undertaken frequently by internal auditors and are reported to Audit Committee. Any identified issues would be reported to the Pensions Committee. Audited Internal Control reports are submitted by the Investment Managers and checked by officers for matters of concerns.
	10) The fund's Statement of Investment Principles should include a description of the risk assessment framework used for potential and existing investments.	The Pension Fund's ISS includes a description of the risk assessment framework.
	11) Objectives for the overall fund should not be expressed in terms that have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.	Objectives for the overall fund are set having regard to: the advisability of investing fund money in a wide range of investments; the suitability of particular investments and types of investments and the results of asset/ liability modelling.
	12) The Annual Report of the pension fund should include an overall risk assessment in relation to each of the fund's activities and factors expected to have an impact on the financial and reputational health of the fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of any residual risk.	The Pension Fund Annual Report includes an overall risk assessment in relation to each of the fund's activities and includes a copy of the Risk Register. This will be reported periodically to the Pensions Committee. The Risk Register is designed to be a living document and is included as a standing item on the Fund's Local Pension Board Agenda. It is reported periodically to the Pensions Committee.
<b>4. Performance assessment</b>		
		<b>SUMMARY: FULLY COMPLIANT</b>
	<b><u>Investments</u></b>	
<b>a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors</b>	The committee should:	
<b>b) Administering authorities should also</b>	1) explicitly consider, for each asset class invested,	As part of any investment strategy review the Pension

## MYNERS PRINCIPLES

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
<b>periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members</b>	whether active or passive management would be more appropriate; where it believes active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies; if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection.	Fund considered and adopted its own asset allocation in full consultation with the Fund's investment advisor, it considered and has adopted active and passive management and appropriate targets and risk controls set.
	2) explicitly consider, in consultation with its investment manager (s), whether the index benchmarks are appropriate, and in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies	Benchmarks are set in agreement with the fund's investment manager (s)
	3) Where active management is selected, divergence from a benchmark should not be so constrained as to imply index tracking (i.e. passive management) or so wide as to imply unconstrained risk.	
	4) Performance targets in relation to benchmark should be related to clear time periods and risk limits and monitoring arrangements should include reports on tracking errors.	Performance monitoring reports are presented to the committee quarterly and covers the latest quarter, rolling one year and three year performance. In line with the reporting cycle, the Committee will see one fund manager at meeting unless there are performance concerns for individual managers. Where appropriate fund managers will report tracking errors
	5) Although returns will be measured on a quarterly basis a longer time frame (three to seven years) should be used to assess the effectiveness of the fund management arrangements and review the continuing compatibility of the asset/liability profile.	The asset /liability profile is considered at each triennial valuation.

## MYNERS PRINCIPLES

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
	6) Investment activity in relation to benchmark should be monitored regularly to check divergence and any impact on overall asset allocation strategy.	In addition to officer reports, the investment advisor monitors and reports quarterly to the Pension Committee on performance, personnel, process and organisational issues of fund managers. The fundamental risk of the investment strategy not delivering the required – net of fee- return is measured quarterly in terms of the overall financial objective.
	7) Returns should be obtained from specialist performance agencies independent of the fund managers.	The Pension Fund uses the services of SSGS Performance Services (up to 30 Sept 19) and Northern Trust from 1 October 2019 who independently report against the overall fund and individual manager returns on a quarterly basis. Performance returns are monitored against fund manager returns and discrepancies are investigated. The Fund also uses the Services of PIRC to provide LGPS universe comparisons.
	8) Investment manager returns should be measured against their agreed benchmark and variations should be attributed to asset allocation, stock selection, sector selection and currency risk, all of which should be provided by an independent performance measurement agency	Each quarter, SSGS Performance Services/ Northern Trust measure fund manager returns against their set benchmarks and variations are attributed to asset allocation and stock selection. Relative risk is also measured and the degree of the manager deviating from the benchmark is included in the performance report.
	9) In addition to the overall fund returns the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed (e.g. equities by country, fixed interest by country and type etc.).	The Pension Fund does not measure fund returns on an asset class basis because the focus is on how individual manager performance contributes to the overall fund performance. However the weightings in each asset class are monitored and reported.
	10) The use of peer group benchmarks (such as CIPFA/WM) may not be appropriate for directing a mandate of a manager insofar as they infer a common asset liability structure or investment requirement. Such benchmarks can be used for comparative information.	PIRC performance returns against peer group benchmarks are used for comparison purposes only.



## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	11) The mandate represents the instruction to the manager as to how the investment portfolio is to be managed, covering the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.	The mandate agreed with the investment manager includes how it is to be managed and covers the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.
	<b><u>Advisors</u></b>	
	12) The committee should devise a performance framework against which to measure the cost, quality and consistency of advice received from its actuaries. It is advisable to market test the actuarial service periodically.	Annual service assessments are undertaken for the services provided the Fund's actuary and advisors. They are measured against a set of criteria adopted by the Pension Committee. Objectives for the Investment consultant have now been formulated to be in line with the Competition and Markets Authority (CMA) Order 2019.
	13) It is necessary to distinguish between qualitative assessments (which are subjective) and quantitative reviews which require the compilation of series of data and are therefore more long term by nature.	
	14) Consultants should be assessed on a number of issues including the appropriateness of asset allocation recommendations, the quality of advice in choosing benchmarks and any related performance targets and risk profiles. The quality and appropriateness of the investment managers that are recommended and the extent to which advisors are proactive and consistent in recommending subsequent changes.	
	15) When assessing managers and advisors it is necessary to consider the extent to which decisions have been delegated and advice heeded by officers and elected members	
	<b>Decision-making bodies</b>	
	16) The process of self-assessment involves both officers and members of the committee reviewing a range of items, including manager selection, asset allocation decisions, benchmarking decisions, employment of consultants and best value outcomes;	Pensions Committee performance is reviewed as part of the Annual Report. Performance can be measured by the success or otherwise of the strategy put in place and the individual performance of investment managers appointed

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	17) the objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved.	by the committee, and full compliance with governance requirements including attendance at all training sessions.
	18) The committee should set out its expectations of its own performance in its business plan. This could include progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to administration of the committee's business such as:	The Business Plan sets out the expectations of the committee.
	19) attainment of standards set down in CIPFA's knowledge and skills framework and code of practice; achievement of required training outcomes; achievement of administrative targets such as dates for issuing agendas and minutes.	Achievement of training outcomes are self assessed by the Pensions Committee. Targets such as dates for issuing agendas and minutes are strictly adhered to. Achievement of administrative targets are reported in the Pension Fund Annual report.
	20) This assessment should be included in the fund's Annual Report.	The assessment of the committee expectations and training are included in the Annual Report
<b>Responsible ownership</b>		
		<b>SUMMARY: PARTIALLY COMPLIANT</b>
<b>Administering authorities should:</b>		
<b>a) recognise, and ensure that their partners in the investment chain adopt, the FRC's UK Stewardship Code</b>	1) Policies regarding responsible ownership must be disclosed in the statement of investment principles which must be contained the annual report.	Policies on Social Environmental and ethical considerations are disclosed in the ISS, a copy of which is also included in the Pension Fund Annual Report.
<b>b) include a statement of their policy on responsible ownership in the statement of investment principles</b>	2) Responsible ownership should incorporate the committee's approach to long term responsible investing including its approach to consideration of environmental, social and governance issues.	The Pension Committee has considered socially responsible investments and the view has been taken that the fund's investment managers to integrate all material financial factors into the decision making process for fund investments.
<b>c) report periodically to scheme members on the discharge of such responsibilities.</b>	3) The committee should discuss the potential for consideration of environmental, social and governance issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performances.	On the 19 March 2019 the Pensions Committee established and published a Statement of investment Beliefs which reflects the broad views of committee members in regard to ESG .Over the long term, the Pensions Committee requires the investment managers to consider, as part of the investment decisions, socially

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	4) Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues e.g. LAPFF.	responsible investment issues and the potential impact on investment performance. The Fund are members of LAPFF
	5) It is important to ensure that through the terms of an explicit strategy that an authority's policies are not overridden, negated or diluted by the general policy of an investment manager.	The ISS is distributed to fund managers so that they are aware of the overall strategy. Fund managers are included in the consultation process if there are major changes.
	6) Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisors to assist compliance in engagement. Measuring effectiveness is difficult but can only be achieved by open monitoring of action taken	Fund managers have been given delegated authority to vote in accordance with their proxy voting policies. Fund Managers report voting activity quarterly and made available for the Pensions Committee to review.
	7) The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the committee's policy.	Consideration of compliance will need to be given for future appointments. For existing investment managers, where applicable they are compliant or work is well underway to becoming compliant.
	8) The committee should engage with, and consider the implications of, the UK Stewardship Code on a comply or explain basis	Whilst the Fund is not signatories to the Stewardship Code, the Committee fully endorses the principles laid down in the UK Stewardship Code
	9) The committee should also ensure that external partners in the investment chain (advisors, consultants, investment managers, etc.) adopt the UK Stewardship Code insofar as it relates to their activities on behalf of the fund.	The UK Stewardship Code is directed to institutional investors (asset owners and asset managers with equity holdings in UK listed companies) and should apply on a comply-or-explain basis. Currently all of the funds UK asset managers and service providers have adopted the code. The 2012 signatories to the code will be valid until the first signatory list is published in March 2021 under the new code launched in January 2020.

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	10) The United Nations Environment Programme Finance Initiative (UNEP FI) has published Principles for Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the six principles and regularly assess themselves against a comply or explain framework.	The UNPRI is voluntary and applies on a comply or explain basis. All but two of the fund's asset managers have adopted the code.
<b>6. Transparency and reporting</b>		
		<b>SUMMARY: FULLY COMPLIANT</b>
<b>Administering authorities should:</b>	The committee should:	
<b>a) act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives</b>	1) ensure that its Governance Compliance Statement is maintained regularly. It should actively challenge any non-compliance and be very clear about its reasons for this and be comfortable with the explanations given.	The Governance Compliance Statement is considered and reviewed by the Pensions Committee on a regular basis. Any non-compliance is reported and necessary actions included.
<b>b) provide regular communication to scheme members in the form they consider most appropriate.</b>	2) have a comprehensive view of who its stakeholders are and the nature of the interests they have in the scheme and the fund. There should be a clearly stated policy on the extent to which stakeholders will take a direct part in the committee's functions and those matters on which they will be consulted.	The Governance Compliance Statement includes a statement on the extent to which stakeholders will take a direct part in the Pensions Committee's functions. Stakeholders are consulted and notified on major strategic and legalisation matters.
	3) build an integrated approach to its own governance and to communicating this and all other aspects of its work to its stakeholders.	The work of the Pensions Committee is publicly available on the Council's website at <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> , follow links for council & democracy, committees, then pension committee. There is also a dedicated page on the Council's website for the Pension Fund under the page for council and democracy. How the work is communicated to its stakeholders is included in the fund's Communication Strategy, select link below to see the pension's page on the council's website.  <a href="#">Pension Fund Page</a>

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	4) seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. The full range of available media should be considered and used as appropriate.	Havering has undertaken partnership working with the London Pension Fund Authority who have developed a website to enable pension sharing best practices across the London Boroughs at <a href="http://www.yourpension.org.uk">www.yourpension.org.uk</a> . Havering Pension Fund is also members of the CIPFA Pensions Network and the London Pension Fund Forum which are good sources of sharing best practices.
	5) compare regularly its annual report to the regulations setting out the required content and, if the report does not fully comply with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible.	The Pension Fund Annual Report is prepared in accordance with Regulation 57 of the LGPS Regulations 2013 which applied from 1 April 2014. It is also prepared in accordance with guidance published by CIPFA/PRAG 2019 edition.
Page 403	6) The Funding Strategy (FSS), the Statement of Investment Principles (SIP) and the Governance Compliance Statement are core source documents produced by the fund to explain their approach to investments and risks.	The FSS, the ISS and the Governance Compliance Statement are available on the Council's website at <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> and are included on a dedicated page for the Pension Fund under the link for council and democracy, or select the link below. This page also includes the Pension Fund's Communication Strategy. Where applicable reference to all these documents is made in other publications.  <a href="#">Pension Fund Page</a>
	With regard to the FSS and SIP, they should:	
	7) contain delegation process and the roles of officers, members, external advisors and managers should be differentiated. The process by which the overall fund allocation process has been determined and include reference to assumptions as to future investment returns; mandates given to managers should describe fees structures, scale of charges, whether ad valorem or fixed, performance element built in, stating the implications for risk control; copies should be made available and its availability made clear in publications.	The policies shows the delegation process and the roles of officers, members, external advisors and how managers are differentiated; the process by which the fund allocation has been determined and includes references to assumptions on future returns; mandates given to each manager are described, including fees; and implications for risk control.
	With regard to the Governance Compliance Statement it must include:	

## MYNERS PRINCIPLES

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
	8) information on whether administering authority delegates, the whole or part function; if it does delegate must state frequency of meetings, terms of reference, structure and operational procedures. It must also include whether the committee includes representatives of employing authorities and if so, whether they have voting rights.	The Governance Compliance Statement includes information on the administering authorities' delegation process and functions delegated to the Pensions Committee. It also includes the frequency of meetings, terms of reference, structure and operational procedures.
	9) details of the extent to which it complies with CLG guidance. Where the statement does not comply, reasons must be given. A copy of the statement must be sent to the CLG.	The Governance Compliance Statement also includes a table which shows the extent of compliance with DCLG guidance (now MHCLG).
	With regard to the fund's Communication Strategy it must:	
	10) set out the administering authority's policy on: the provision of information and publicity about the scheme to members, representatives of members and employing authorities; the format, frequency and method of distributing such information or publicity; the promotion of the scheme to prospective members and their employing authorities.	The Communication Statement includes: the administering authorities' policy on provision of information and publicity about the scheme, it also includes the format, frequency and method of distribution of such information.

# **London Borough of Havering**

## **Pension Risk Register**

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NOVEMBER 2018

## 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.

Page 406 Likelihood	A				
	B				
	C				
	D				
	E				
	F				
		4	3	2	1
		Impact			

### 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



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	<b>Risk of Inaccurate three yearly actuarial valuation</b>  <b>Cause:</b> <ul style="list-style-type: none"> <li>Inappropriate assumptions used by actuary in calculations for valuation</li> <li>Poor quality data provided from LB of Havering</li> <li>Personal data not maintained to a high standard (gaps/incorrect)</li> <li>Actuary's own assumptions are not robust or reflective</li> </ul>	<ul style="list-style-type: none"> <li>Deficit position worsens</li> <li>Employers pay/continue to pay inappropriate contribution percentages</li> <li>Increase in employer contributions</li> <li>Potential for Council Tax increases</li> <li>More investment risk may be taken to bridge a gap that doesn't actually exist</li> <li>Potential for a more risk adverse Investment Strategy when more risk is required.</li> </ul>	<ul style="list-style-type: none"> <li>Valuation completed by a qualified professional actuary – next valuation being completed in 2019.</li> <li>Robust, open procurement process in place for appointment of actuary</li> <li>Some assumptions for valuation are in compliance with regulation</li> <li>Actuarial assumptions are open to challenge by officers and GAD</li> <li>Valuation results are checked for consistency across LGPS funds by GAD via the S13 report</li> <li>Local Government benchmarking/comparisons of assumptions</li> <li>Annual review of actuary performance undertaken by Pensions Committee</li> <li>Internal controls in place to ensure accuracy and completeness of data.</li> <li>Monitoring of contributions due and received.</li> </ul>	D/3	None identified at this point		S151 Officer/ Director of Exchequer and Transactional Services
2	<b>Risk of Incorrect / Inappropriate Investment Strategy</b>  <b>Cause:</b>	<ul style="list-style-type: none"> <li>Pension deficit not reduced</li> <li>Potential for financial loss</li> </ul>	<ul style="list-style-type: none"> <li>Robust, open procurement process in place for appointment of Investment Advisor</li> </ul>	D/2	<ul style="list-style-type: none"> <li>Pensions Committee - Training / Awareness -</li> </ul>	<ul style="list-style-type: none"> <li>Induction carried out for new Pension Fund</li> </ul>	S151 Officer

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
	<ul style="list-style-type: none"> <li>Lack or poor professional investment advice given</li> <li>Poor governance</li> <li>Investment advice is not taken</li> <li>Lack of understanding and awareness (Pension Committee)</li> <li>Lack of clear risk appetite</li> <li>Based upon inaccurate actuarial valuation</li> <li>Concentration risk by asset, region and sector</li> </ul>	<ul style="list-style-type: none"> <li>Growth opportunities are not maximised</li> <li>Could generate inefficiencies and unintended risks if not fully understood.</li> <li>More investment risk may be taken to bridge a gap that doesn't actually exist</li> <li>Potential for a more risk adverse Investment Strategy when more risk is required.</li> <li>Potential for Council Tax increases</li> <li>Loss of investment opportunities and adverse performance</li> </ul>	<ul style="list-style-type: none"> <li>Investment Advisor performance is annually reviewed by the Pensions Committee</li> <li>Close working relationship is encouraged between actuaries and investment advisor in the development of the investment strategy</li> <li>Investment strategy continually assessed as part of the quarterly monitoring process by the Pensions Committee</li> <li>Liabilities analysed during inter-valuation period</li> <li>Knowledge and skills training of LPB and Committee Members</li> </ul>		<ul style="list-style-type: none"> <li>working towards full compliance with CIPFA Knowledge and Skills framework</li> <li>Consider using a further independent advisor for challenge to investment advice</li> </ul>	<ul style="list-style-type: none"> <li>Committee members July 18.</li> <li>Knowledge and Skills Training is on-going for Pension Committee and Local Pension Board members.</li> <li>Independent advisor was appointed for a one off exercise following adoption of investment strategy in January 17 to undertake a health check and add robustness on the investment strategy.</li> </ul>	
3	<b>Risk of failure of</b>	<ul style="list-style-type: none"> <li>Deficit reduction</li> </ul>	<ul style="list-style-type: none"> <li>Robust, Fund Manager</li> </ul>	D/3	<ul style="list-style-type: none"> <li>Pensions Committee</li> </ul>	<ul style="list-style-type: none"> <li>Induction</li> </ul>	S151 Officer

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	<b>investments to perform in-line with growth expectations</b>  <b>Cause</b> <ul style="list-style-type: none"> <li>Poor Fund Manager selection</li> <li>Underperformance by fund manager</li> <li>Poor investment advice provided to LB of Havering or not taken</li> <li>Negative financial market impacts</li> <li>External factors / increased market volatility (i.e. 2008), uncertainty of Brexit</li> <li>Delays in the implementation of the strategy will reduce the effectiveness of the strategy and may impact growth</li> <li>Delays in compliance with capital calls on new illiquid mandates could result in</li> </ul>	targets are not met <ul style="list-style-type: none"> <li>Potential for losses to be incurred</li> <li>Increased employer contributions</li> <li>Reputational risk from poor investments</li> <li>The fund's assets are not sufficient to meet its long term liabilities</li> <li>Economy downturn could result in general fall in investment values</li> </ul>	selection process <ul style="list-style-type: none"> <li>Diverse portfolio to reduce negative effects from market volatility</li> <li>Fund performance and asset class split is reviewed quarterly by investment advisor/Pensions Committee and officers.</li> <li>Fund Managers (including LCIV) attend Pension Committee to present quarterly performance reports and challenge by the Committee and Fund Advisor.</li> </ul>		Training/Awareness – working towards full compliance with CIPFA Knowledge and Skills framework	carried out for new Pension Fund Committee members July 18. <ul style="list-style-type: none"> <li>CIPFA Knowledge and Skills Training is on-going.</li> </ul> <b>Further Actions 2018</b> <ul style="list-style-type: none"> <li>Continued monitoring of the LCIV</li> </ul> <ul style="list-style-type: none"> <li>Process in place to fund</li> </ul>	

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
	penalty payments					new illiquid mandates. Officers working closely with investment advisor to ensure timings	
4	<b>Risk of failure to comply with legislative requirements</b>  <b>Cause:</b> <ul style="list-style-type: none"> <li>Lack of appropriate skills/knowledge of The Pensions Regulator, (TPR), MHCLG and CIPFA Guidance, Financial Regulations and accounting standards</li> <li>Unaware of legislative changes</li> <li>key person dependency</li> <li>Poor/inaccurate interpretation of the regulations</li> <li>Failure/inability to administer the</li> </ul>	<ul style="list-style-type: none"> <li>Reputational damage</li> <li>Potential for financial penalties from the TPR</li> <li>Potential for costly legal challenges</li> <li>Impact on employer contributions, delayed due to non-compliance.</li> <li>Adverse external audit report</li> </ul>	<ul style="list-style-type: none"> <li>Financial requirements are subject to external and internal audit. Favourable External audit reports since 2015. Internal audit to take place September 2018.</li> <li>Experienced personnel in place</li> <li>Continual personal development for all Committee/LPB members and Officers</li> <li>Induction carried out for new Pension Fund Committee and Local Pension Board members</li> <li>Legislative changes are reported to the Pensions Committee where required</li> <li>Local Pension Board in place to oversee adherence to the regulations</li> <li>Active participation in Legislative Consultations</li> </ul>	E/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
Page 411	pension scheme appropriately		where appropriate <ul style="list-style-type: none"> <li>▪ External and in house training provided where required</li> <li>▪ Member of the CIPFA Pensions Network</li> <li>▪ Participate in the CIPFA Pensions Network/ Peer forums to share knowledge &amp; awareness</li> <li>▪ Statutory policy documents reviewed annually to ensure compliance with legislation</li> <li>▪ Access to specialist pension media sources.</li> </ul>				
	<b>Risk of inability to manage/govern the Pension Fund and associated services:</b>  <b>Cause:</b> <ul style="list-style-type: none"> <li>▪ Ineffective / lack of succession planning</li> <li>▪ Loss of corporate knowledge/ expertise</li> <li>▪ Long term sickness absence</li> <li>▪ Increase in staff turnover</li> <li>▪ LCIV monitoring and</li> </ul>	<ul style="list-style-type: none"> <li>▪ Negative impacts upon service provision</li> <li>▪ Time delays</li> <li>▪ Potential for breach of legislation</li> <li>▪ Financial penalties/ other sanctions</li> <li>▪ Reputational Damage</li> <li>▪ Increased costs due to "buying in" external expertise</li> </ul>	<ul style="list-style-type: none"> <li>▪ Bond or guarantee reviews in place and reviewed every three years as part of valuation process</li> <li>• Attendance at local forum meetings</li> <li>• Attendance at Annual Pension Managers conference</li> <li>• Members of Local Authority Pensions Web</li> <li>• Participates in the CIPFA Pensions Network/ Peer forums to share knowledge &amp; awareness</li> <li>• Attendance at accounting</li> </ul>	D/3	<ul style="list-style-type: none"> <li>• Succession planning required for key personnel</li> <li>• Review / update procedure manuals</li> <li>• Option being assessed for joint administration with Newham to build resilience</li> </ul>	<ul style="list-style-type: none"> <li>• Succession planning in progress</li> <li>• Contract Monitoring officer working to prepare procedure manual.</li> <li>• LPP appointed in Havering in November 17 (already in Newham) are</li> </ul>	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
	<ul style="list-style-type: none"> <li>resourcing</li> <li>No knowledge base to store experiences/information</li> <li>Lack of resource (Staffing/financial)</li> <li>ICT failure/Disaster Recovery</li> <li>Poor pension fund administration including outsourced service by LPP</li> <li>Poor administration by the employers, payroll providers in the fund</li> <li>Poor monitoring of employer financial status</li> <li>Poor communications with stakeholders</li> <li>Inappropriate investment accounting – including reliance on third party providers.</li> <li>Excessive charges by suppliers</li> <li>Employer goes into</li> </ul>	<ul style="list-style-type: none"> <li>Employer defaults</li> <li>Qualified opinion on the accounts by external auditor</li> <li>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 contribution rates with a high margin of error.</li> <li>Higher employer contributions due to poor investment performance</li> <li>Employer failure to pay scheme contributions on time</li> <li>Poor</li> </ul>	<ul style="list-style-type: none"> <li>seminars/training</li> <li>Guidance from external agencies (some will be at a cost)</li> <li>Pension Fund uses the service of an external custodian to verify asset values and performance</li> <li>Pension Fund accounts subject to external audit.</li> <li>Service is subject to external auditor report of LPP processes</li> <li>Formal agreement in place with administrator, including SLA's</li> <li>Authority levels clear</li> <li>The Council has in place a complaints system to address complaints via the website</li> <li>Continuous pension training for LPB, Pensions Committee members and staff</li> <li>ICT/ Disaster Recovery in place</li> <li>Contract Monitoring Officer in place to review the administration work of LPP</li> <li>Monthly reconciliations to</li> </ul>		<ul style="list-style-type: none"> <li>Introduce employer covenants checks</li> <li>Strengthen the process for Bond reviews.</li> <li>Development of workflow/process management</li> </ul>	<ul style="list-style-type: none"> <li>working with Havering to provide seamless administration service.</li> <li>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.</li> <li>LPP works with the Contract Monitoring Officer to develop/improve workflow processes</li> </ul>	

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Page 413	default, deficit on termination, change of status, financial risk.	<p>Communication with stakeholders giving rise to disaffection and actions against the Council</p> <ul style="list-style-type: none"> <li>▪ Insufficient assets to meet short term liabilities</li> </ul>	<p>monitor cash flow carried out.</p> <ul style="list-style-type: none"> <li>• Ee's and Er's contributions reconciled monthly –late payments chased</li> <li>• Fee Invoices checked prior to payment</li> <li>• Monitor audited accounts of third party providers to ensure consistent asset valuation.</li> <li>• Monitor investment managers performance – Fund Managers present at Pension Fund Committee meetings</li> <li>• Union Representative at the Committee</li> </ul>		<ul style="list-style-type: none"> <li>• Establishment of a statutory Local Pension Board to assist the administering authority in effective and efficient governance of the Havering Pension Fund.</li> <li>• Development of Training Matrix</li> </ul>	<ul style="list-style-type: none"> <li>• Local Pension Board established in 2014 and members are continuing with training and development</li> <li>• Training matrix in place</li> </ul>	
	<p><b>Risk of failure to on board or exit employers/members effectively</b></p> <p><b>Cause:</b></p> <ul style="list-style-type: none"> <li>▪ Delays in internal processing of documentation</li> <li>▪ Member data incomplete</li> <li>▪ Poor communications with stakeholders</li> <li>▪ Lack of</li> </ul>	<ul style="list-style-type: none"> <li>▪ Delays in collection of contributions from the employers/ members</li> <li>▪ Impacts cash flow</li> <li>▪ Potential for litigation</li> <li>▪ Employer contribution assessment can</li> </ul>	<ul style="list-style-type: none"> <li>▪ Escalation to Heads of Service</li> <li>▪ Script in place to deliver to new Academy employers, with feedback process in place (minuted)</li> <li>▪ Database maintained on all contact details for LGPS communications.</li> <li>▪ Monthly schedules maintained by the Pensions Administration Team</li> <li>▪ Tracing agencies used to locate pension fund members</li> </ul>	D/2	<ul style="list-style-type: none"> <li>▪ Review of internal processes (particularly legal input)</li> <li>• Completion of TUPE Process Manual</li> <li>• Completion of Admission Policy and an employer</li> </ul>	<ul style="list-style-type: none"> <li>• Internal Audit for the Pension Fund requested – discussions in place</li> <li>▪ TUPE manual completed in November 2017</li> <li>▪ Admission policy and manual completed in</li> </ul>	S151 Officer/ Director of Exchequer and Transactional Services

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Page 414	<ul style="list-style-type: none"> <li>understanding by employers with regard to their responsibilities</li> <li>Lack of signed admission agreements from Employers</li> </ul>	become out of date <ul style="list-style-type: none"> <li>Potential breach of regulations</li> <li>Incorrect records of new members</li> <li>External Audit Opinion on internal controls</li> <li>Employer's liabilities may fall back onto other employers and ultimately local taxpayers.</li> </ul>	<ul style="list-style-type: none"> <li>Electronic file of required documents forwarded to new employers</li> <li>Actuarial assessment completed for all new admission requests to assess the level of risk.</li> <li>Bonds and suitable guarantees put into place to protect the Fund in case of default.</li> <li>Funding level of each employer is assessed as part of the triennial valuation and contribution rates set accordingly.</li> </ul>		manual <ul style="list-style-type: none"> <li>Template admission agreement awaiting legal clearance</li> </ul>	November 2017 includes legal input <ul style="list-style-type: none"> <li>Still in progress lead by the risk officer in LPP</li> </ul> <p><b>Further Actions 2018</b></p> <ul style="list-style-type: none"> <li>To ensure appropriate admin controls are in place via the internal audit process</li> </ul>	
	<b>7 Risk of Pension Fund Payment Fraud</b> <b>Cause:</b> <ul style="list-style-type: none"> <li>Pension overpayments arising as a result of non-notification in change of circumstances</li> <li>Internal staff fraud</li> <li>Staff acting outside of their levels of authorisation</li> <li>Conflict of interest</li> </ul>	<ul style="list-style-type: none"> <li>Financial loss</li> <li>Reputational damage of Pension Administration team and Council</li> <li>Litigation / investigation</li> <li>Internal disciplinary</li> <li>Reputational damage</li> </ul>	<ul style="list-style-type: none"> <li>Participate in the National Fraud Initiative (bi-annually)</li> <li>Process is in place to investigate return of payment by banks.</li> <li>All pension calculations are peer checked and signed off by senior officer</li> <li>Segregation of duties within the Pensions Administration Team</li> <li>Segregation of duties between Payroll and Pensions Administration Team</li> <li>Address checked for</li> </ul>	E/1	<ul style="list-style-type: none"> <li>Consider implementation of a monthly mortality check</li> <li>Investigating usage of external agencies (i.e. Western Union) (for overseas payments)</li> </ul>	<ul style="list-style-type: none"> <li>We are registered for the "Tell us Once" service supersedes a monthly mortality check</li> <li>Upon review, the service has not been required to date</li> </ul>	Director of Exchequer and Transactional Services



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			<ul style="list-style-type: none"> <li>deferred pensions prior to payment</li> <li>Internal audit checks carried out</li> <li>Signed up for DWP database Tell us Once – DWP inform Havering of deaths relating to contributors to the LGPS fund</li> <li>Pension Fund bank account checked monthly</li> <li>Register of interests completed at all board meetings</li> </ul>		<ul style="list-style-type: none"> <li>Implement internal audit process to report on the effectiveness of the internal controls</li> </ul>	<ul style="list-style-type: none"> <li>Internal audit working on the scope of the audit at present.</li> </ul> <p><b>Further Actions 2018</b></p> <ul style="list-style-type: none"> <li>LPP to investigate the cost/use of ATMOS – a mortality screening application.</li> <li>To Review the usage of external agencies for overseas payments</li> </ul>	

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