Public Document Pack

Havering
LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.00 pm	Tuesday 12 January 2021	Virtual Meeting

Members 7: Quorum 3

COUNCILLORS:

Conservative Group (3)	Residents' Group (1)	Upminster & Cranham Residents' Group (1)	Labour Group (1)
John Crowder (Chairman) Osman Dervish Jason Frost	Stephanie Nunn	Ron Ower	Keith Darvill

North HaveringResidents' 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

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF

What matters are being discussed?

DPI

Does the business relate to or is it likely to affect a disclosable pecuniary interest. These will include the interests of a spouse or civil partner (and co-habitees):
• any employment, office, trade, profession or vocation that they carry on for profit or gain;
• any sponsorship that they receive including contributions to their expenses as a councillor; or the councillor's election expenses from a Trade Union;
• any land licence or tenancy they have in Havering
• any current contracts leases or tenancies between the Council and them;
• any current contracts leases or tenancies between the Council and any organisation with land in Havering in they are a partner, a paid Director, or have a relevant interest in its shares and securities;
• any organisation which has land or a place of business in Havering and in which they have a relevant interest in its shares or its securities.

YES → Declare Interest and Leave

NO ↓

PERSONAL INTEREST

Might a decision in relation to that business be reasonably be regarded as affecting (to a greater extent than the majority of other Council Tax payers, ratepayers or inhabitants of ward affected by the decision)
• Your well-being or financial position; or
• The well-being or financial position of:

o A member of your family or any person with whom you have a close association; or
- Any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors;
- Any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000;

o Any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your Authority; or

o Any body exercising functions of a public nature, directed to charitable purposes or whose principal includes the influence of public opinion or policy (including any political party or trade union) of which you are a member or in a position of general control or management?

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES ↓

PECUNIARY INTEREST

You must disclose the existence and nature of your personal interests

↓

Would a member of the public, with knowledge of the relevant facts, reasonably regard your personal interest to be so significant that it is likely to prejudice your

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES ↓

- Does the matter affect your financial position or the financial position of any person or body through whom you have a personal interest?
- Does the matter relate to an approval, consent, licence, permission or registration that affects you or any person or body with which you have a personal interest?
- Does the matter not fall within one of the exempt categories of decisions?

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES ↓

Speak to Monitoring Officer in advance of the meeting to avoid allegations of corruption or bias

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

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 PROTOCOL FOR VIRTUAL MEETING

Attached for noting by the Committee.

5 MINUTES OF THE MEETING (Pages 1 - 4)

To approve as correct the minutes of the meeting held on 12 November 2020 (attached).

6 PENSION FUND RISK REGISTER - UPDATED (Pages 5 - 34)

Report and appendix attached.

7 REVIEW OF VOTING AND ENGAGEMENT ACTIVITY (Pages 35 - 48)

Report and appendix attached.

8 FUNDING STRATEGY STATEMENT - REGULATORY UPDATES (Pages 49 - 102)

Report and appendix attached.

9 LOCAL PENSION BOARD ANNUAL REPORT - 31 MARCH 2020 (Pages 103 - 128)

Report and appendix attached.

10 EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

11 PENSION FUND PERFORMANCE FOR THE QUARTER ENDED SEPTEMBER 2020 (Pages 129 - 186)

Report and appendices attached (appendices B and C not available to press or public).

Andrew Beesley
Head of Democratic Services

MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Virtual Meeting
12 November 2020 (7.00 - 7.55 pm)

Present:

COUNCILLORS

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

All decisions were taken with no votes against.

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

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

There were no apologies for absence.

170 **DISCLOSURE OF INTERESTS**

There were no disclosures of interest.

171 **PROTOCOL FOR VIRTUAL MEETING**

The protocol was noted by the Committee.

172 **MINUTES OF THE MEETING**

Councillor Goode raised a mistake in which he was noted under the incorrect party and has since been corrected.

The minutes of the meeting of the Committee held on 1st October 2020 were otherwise agreed as a correct record and, due to COVID-19, will be signed by the Chairman at a later date.

173 **MINUTES OF THE LOCAL PENSION BOARD**

The Committee were given a brief summary of the minutes of the previous Local Pension Board meeting held on 2nd September 2020. The minutes were **noted** by the Committee.

174 **OVERPAYMENT WRITE-OFF POLICY REVIEW**

The report presented to the Committee gave an update on the Overpayment write-off policy.

Members noted the policy had been implemented in March 2019 to write off any overpayment after the death of a pensioner of up to £250 as it was deemed not cost effective as the administration cost was £77 per case. It was noted that the net write-off would not equal more than £5,000 per annum and in 2019/20 the Committee noted the write-offs had totalled £3361.62.

The Committee **agreed** to the continuation of the Policy for the overpayment of pension following the death of a pensioner or dependant member for a further year.

175 **WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT**

The report presented to the Committee have an update on the whistleblowing requirements of the Pensions Act 2004.

The Committee noted that the requirements is for all persons involved with the pension scheme to report any breaches of law which is likely to case material significance to the Council. It was noted that there had been no breaches reported during the year to 30 September 2020 and therefore no reports had been made to the regulator.

The Committee **noted** the results of the annual review.

176 **CUSTODIAN SERVICE REVIEW**

The report presented to the Committee gave details of the performance review for the Custodian, Northern Trust (not State Street as stated in the report) for the period of 1st October 2019 to 30 September 2020.

Members noted Northern Trust were appointed on the 1st October 2019 for a duration of 4 years. Members were updated on the functions of the custodian and that performance of the custodian is measured annually. The Committee noted that officers were satisfied with the performance of the custodian but it was reported that there were issues with the timeliness of invoices being received. Officers reassured members that there would be no material financial impact but as this was the first instance of processing invoices for Northern Trust that an understanding of the composition of the invoices is being sought and once received will proceed with processing the invoices.

The Committee **noted** the performance report submitted by officers.

177 **ACTUARIAL SERVICES REVIEW**

The report put before the Committee summarised the performance of the actuary, Hymans Robertson, between 1st October 2019 and 30th September 2020.

Hymans Robertson was appointed in July 2018 for a term of 5 years with an option to extend by a further 2 years. Members noted that officers were satisfied with the service provided by the Actuary.

The Committee **noted** the views of officers on the performance of the Actuary.

178 **INVESTMENT CONSULTANT SERVICES REVIEW**

The final report presented to the Committee gave detail on the performance of the investment consultant for the period 1st October 2019 and 30th September 2020 against strategic objectives previously set.

Members noted that Hymans and Havering had met to discuss the service review and agreed on areas for improvement.

The Committee **noted** the views of officers on the performance of the Investment Consultant.

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Chairman

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 12 January 2021

Subject Heading:	**PENSION FUND RISK REGISTER - UPDATED**
CLT Lead:	**Jane West**
Report Author and contact details:	***Lilian Thomas*** ***Pension Fund Accountant*** ***01708 431057*** Lillian.thomas@havering.gov.uk
Policy context:	***Pension Fund Governance***
Financial summary:	***No direct financial implications***

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

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

SUMMARY

This report updates the committee with the latest version of the Havering Pension Fund ("the Fund") Risk Register, which details the potential risks that the Fund is exposed to, that the Pensions Committee should be aware of, and the controls in place to manage those risks.

RECOMMENDATIONS

The Pensions Committee is recommended to:

1. Note the additional risks considered and recommendations by the Local Pension Board summarised in Section 2.6
2. Agree to the updated Risk Register.

REPORT DETAIL

1. Background

1.1 Risk management is a key responsibility of those charged with Pension Fund Governance and the need for effective risk management is reflected throughout guidance and regulation in the Local Government Pension Scheme (LGPS), in the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 Regulation 7 (2) (c), Statutory guidance under Regulation 58 of the LGPS Regulations 2013,* The Pensions Regulator's (tPR) Code of Practice 14 (which includes a section on internal controls and managing risks) and in the CIPFA publication *Delivering Good Governance in Local Government Pension Funds (2016) and later version Managing Risk in the Local Government Pension Scheme (2018 Edition).*

1.2 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
- Valuation results

1.3 Other contols in place to manage risks is supported by our external service providers to the Fund such as our actuaries, advisors, auditors, cusdodian and system administrators, alongside our regulatory bodies as they have procedures in place to identify and managing risk.

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

1.5 Myner's principle number three states that the Annual Report of the Fund should include an overall risk assessment in relation to each of the Fund's activities and factors expected to have an impact on the financial and reputational health of the Fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the Committee, together with necessary actions to mitigate risk and assessment of any residual risk.

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

2. Pension Fund Risk Register

2.1 In line with the LGPS Regulations and good practice the Fund has been maintaining a Pension Fund Risk Register since 2015, which was last updated and reported to the Committee in November 2018.

2.2 The risk register complies with CIPFA 'Managing Risk in the LGPS" published in December 2018.

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

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

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

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

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

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

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

7. Pension Fund payment Fraud – potential financial loss

2.4 It should be recognised that it may not be possible to eliminate all risks but accepting and actively managing risk is crucial to fulfilling the governance of the Fund.

2.5 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 and for the LPB to consider and agree to make recommendations for additions.

2.6 A summary of risks considered by the LPB and recommended to be added to the register follows:

a) Risk No.3.
- Fund Manager non-compliance with Transparency code - Risk of not being able to fully disclose fund manager cost in Annual report, in line with CIPFA guidance.
- Underperformance by LCIV in achieving target Asset under management – Development charge may not decrease in line with expectations, increasing costs met by the Fund
- Climate Change Risk – Failure to consider the extent of climate change could impact on financial outcomes

b) Risk No.5.
- Poor Fund administration outsourced service to Local Pension Partnership (LPP) – Admission agreements not completed by transfer date with potential financial loss to the Fund.
- Cyber Security – Failure of all ICT Services and potential data breaches
- Oracle Cloud – Pension Fund accounts system failures could cause operational issues and accounting reconcilations not able to be carried out.
- LCIV staff turnover – possibility of undermining investor confidence resulting in failure to invest via the pool and increased costs not able to be rasied from investment fees.

2.7 The register has been reviewed in the light of these recommendations and updated to October 2020 and is attached as **Appendix A** to this report. New additions recommended by the LPB as shown above are presented in red text.

2.8 As recommended by the tPR as part of their review of the Havering Pension Fund last year – lower level responsible officers has also been added.

2.9 Some format changes have been made to align the risk with its corresponding consequences and mitigations.

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

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

2.11 The Fund uses a matrix to plot risk likelihood and impact. As seen on the attached register the 'green' shaded area on the matrix show the risks where there is adequate control. Risks in the 'amber' and 'red' zones are those over which closer control is required.

2.12 There are some further 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.

2.13 Officers have assessed that the Fund has adequate controls in place and are comfortable with the risks and the scores and therefore have assigned a 'green' rating.

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

IMPLICATIONS AND RISKS

Financial Implications and risks:

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

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

Legal implications and risks:

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

Human Resources implications and risks:

None arising directly

Equalities implications and risks:

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

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

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

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

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

BACKGROUND PAPERS

None.

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Appendix A

Pension Fund Risk Register

Havering

October 2020

Appendix A

Generic Pension Fund Risk Register

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

Likelihood

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

Pension Fund Risk Register oneSource – Havering –- as at October 2020

Appendix A

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

Risk No.	Risk Owner	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations	Review of Actions taken to date and further actions identified
			more risk is required.	▪ Local Government benchmarking/comparisons of assumptions ▪ Annual review of actuary performance undertaken by Pensions Committee ▪ Controls in place to ensure accuracy and completeness of data. ▪ Monitoring of contributions due and received			
2	S151 Officer/ Lower Level as follows: PFM PFM PFM PFM	**Risk of Incorrect / Inappropriate Investment Strategy** **Cause:** ▪ Lack or poor professional investment advice given ▪ Poor governance ▪ Investment advice is not taken	▪ Pension deficit not reduced ▪ Potential for financial loss ▪ Growth opportunities are not maximised	▪ Investment Advisor appointed to advice the Fund and is instrumental in settting Investmnt Strategy ▪ Independent advisor was	D/2		

Pension Fund Risk Register oneSource – Havering –- as at October 2020

Appendix A

Risk No.	Risk Owner	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations	Review of Actions taken to date and further actions identified
Page 17	PFM PFM PFM	▪ Lack of understanding and awareness (Pension Committee) ▪ Lack of clear risk appetite ▪ Based upon inaccurate actuarial valuation ▪ Concentration risk by asset, region and sector	▪ Could generate inefficiencies and unintended risks if not fully understood. ▪ More investment risk may be taken to bridge a gap that doesn't actually exist ▪ Potential for a more risk adverse Investment Strategy when more risk is required. ▪ Potential for Council Tax increases ▪ Loss of investment opportunities and adverse performance	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. ▪ Robust, open procurement process in place for appointment of Investment Advisor ▪ Investment Advisor performance is annually reviewed by the Pensions Committee and conforms to Competetive Markets Order. ▪ Close working relationship is encouraged between actuaries and investment advisor in the			

Risk No.	Risk Owner	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations	Review of Actions taken to date and further actions identified
				development of the investment strategy ▪ Investment strategy continually assessed as part of the quarterly monitoring process by the Pensions Committee ▪ Liabilities analysed during inter-valuation period ▪ Knowledge and skills training of LPB and Committee Members ▪ Inductions carried out for new LPB and Pension Fund Committee member.		▪ Pensions Committee - Training / Awareness - working towards full compliance with CIPFA Knowledge and Skills framework.	▪ Knowledge and Skills Training is on-going for Pension Committee and Local Pension Board members.
3	S151 Officer/ Lower Level as follows:	**Risk of failure of investments to perform in-line with growth expectations** **Cause**			D/3		

Pension Fund Risk Register oneSource – Havering –- as at October 2020

Appendix A

Risk No.	Risk Owner	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations	Review of Actions taken to date and further actions identified
	PFM PFM PFM PFM PFM PFM PFM PFM	▪ Poor Fund Manager selection ▪ Underperformance by fund manager ▪ Poor investment advice provided to the Fund or not taken ▪ Negative financial market impacts ▪ External factors / increased market volatility (i.e. 2008), uncertainty of Brexit, COID-19 Pandemic. ▪ Delays in the implementation of the strategy will reduce the effectiveness of the strategy and may impact growth ▪ Delays in compliance with capital calls on new illiquid mandates could result in penalty payments	▪ Deficit reduction targets are not met ▪ Potential for losses to be incurred ▪ Increased employer contributions ▪ Reputational risk from poor investments ▪ The fund's assets are not sufficient to meet its long term liabilities ▪ Economy downturn could result in general fall in investment values	▪ Robust, Fund Manager selection process ▪ Diverse portfolio to reduce negative effects from market volatility ▪ Fund performance and asset class split is reviewed quarterly by investment advisor/Pensions Committee and officers. ▪ Fund Managers (including LCIV) attend Pension Committee to present quarterly performance reports and challenge by the Committee and Fund Advisor. ▪ Process in place to fund new illiquid mandates.		▪ Pensions Committee Training/Awareness – working towards full compliance with CIPFA Knowledge and Skills framework	▪ CIPFA Knowledge and Skills Training is on-going. • Regular reviews of the LCIV performance continues and this includes monitoring of

Pension Fund Risk Register oneSource – Havering –- as at October 2020

Appendix A

Risk No.	Risk Owner	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations	Review of Actions taken to date and further actions identified
	  PFM PFM	▪ Underperformance of fund manager (LCIV new pooled holding) in achieving Asset Under Management Target ▪ Fund Managers –non compliance to the Code of Transparency. ▪ Climate Risk Considerations	▪ MTFS prediction may fail to reach the target – consequence being that annual development charges may not decrease in line with MTFS expectations ▪ Havering not able to disclose full management fees in the Pension Fund Annual Report and accounts. ▪ Failure to consider the extent of climate change	▪ Development costs are reported by the LCIV at the General Shareholder meetings attended by shareholder reps ie Councillors from each borough. ▪ Monitoring meetings are held with Officers from Havering and LCIV client relations team quarterly. ▪ Fund Managers complete the Code of Transarency compliance teplate annually. ▪ The Committee have developed a set of Investment beliefs that recogonises that climate change and		▪ To continue the monitoring of the LCIV performance. ▪ To monitor the LCIV development costs ▪ Ensure annual compliance with receipt of completed templates. ▪ To monitor on – going discussions between tPR and Government regarding regarding	the LCIV development costs **Further Action taken** ▪ Ongoing action taken as templates are submitted year on year. 2019/20 templates now all completed.

Pension Fund Risk Register oneSource – Havering –- as at October 2020

Appendix A

Risk No.	Risk Owner	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations	Review of Actions taken to date and further actions identified
			could impact on financial outcomes.	the expected transition to a low carbon economy represents a long – term financial risk to Fund outcomes. ▪ The Pensions Regulator has set up a working party to consider guidance for pension schemes which will be published in early 2020. The Scheme Advisory Board is also expected to incorporate climate change considerations into its guidance for LGPS funds during 2020.		Climate Change and the expected guidnace. Following issuance of guidance, the Committee could consider actions including: • Further training • Measuring exposure to and reporting. • Escalating engagement with investee companies on climate-related topics. • Next steps would be taking the Committees investment beliefs and building on developing market practice.	
4	S151 Officer /Director of Exchequer and	**Risk of failure to comply with legislative requirements**			E/3	None identified at this point.	

Pension Fund Risk Register oneSource – Havering –- as at October 2020

Appendix A

Risk No.	**Risk Owner**	**Risk Title (Objectives)**	**Consequences of not achieving the objective (Effect)**	**Controls/Mitigations**	**Likelihood/ Impact**	**Actions/Recommendations**	**Review of Actions taken to date and further actions identified**
	Transactional Services. Lower Level as follows: PFM/CMO PFM/CMO PFM/CMO PFM/CMO PFM/CMO	**Cause:** ▪ Lack of appropriate skills/knowledge of tPR, MHCLG and CIPFA Guidance, Financial Regulations and accounting standards ▪ Unaware of legislative changes ▪ key person dependency ▪ Poor/inaccurate interpretation of the regulations ▪ Failure/inability to administer the pension scheme appropriately	▪ Reputational damage ▪ Potential for financial penalties from the tPR ▪ Potential for costly legal challenges ▪ Impact on employer contributions, delayed due to non-compliance. ▪ Adverse external audit report	▪ Financial requirements are subject to external and internal audit with no qualifications. ▪ Experienced personnel in place ▪ Continual personal development for all Committee/LPB members and Officers ▪ Induction carried out for new Pension Fund Committee and Local Pension Board members ▪ Legislative changes are reported to the Pensions Committee where required ▪ Local Pension Board in place to oversee			

Pension Fund Risk Register oneSource – Havering –- as at October 2020

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				adherence to the regulations ▪ Active participation in Legislative Consultations where appropriate ▪ External and in house training provided where required ▪ Member of the CIPFA Pensions Network ▪ Participate in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness ▪ Statutory policy documents reviewed annually to ensure compliance with legislation ▪ Access to specialist pension media sources.			

Pension Fund Risk Register oneSource – Havering –- as at October 2020

Appendix A

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5	S151 Officer /Director of Exchequer and Transactional Services. Lower level as follows: PFM/CMO PFM/CMO PFM/CMO PFM/CMO PFM/CMO PFM/CMO	**Risk of inability to manage/govern the Pension Fund and associated services: Cause:** ▪ Ineffective / lack of succession planning ▪ Loss of corporate knowledge/expertise ▪ Long term sickness absence ▪ Increase in staff turnover ▪ Lack of resource (Staffing/financial) ▪ No knowledge base to store experiences/information	▪ Negative impacts upon service provision ▪ Time delays ▪ Potential for breach of legislation ▪ Financial penalties/ other sanctions ▪ Reputational Damage ▪ Increased costs due to “buying in” external expertise	• LPP appointed in Havering in November 17 to adminter the Pension Fund • Attendance at local forum meetings • Continuous pension training for LPB, Pensions Committee members and staff • Attendance at Annual Pension Managers conference • Members of Local Authority Pensions Web	D/3	• Succession planning required for key personnel • Review / update procedure manuals • Option being assessed for joint administration with Newham to build resilience • Development of Training Matrix • Development of workflow/process management	• Succession planning in progress • CMO working to prepare procedure manuals. • Training matrix in place, however cannot be fully applied until all CIPFA K&S questionaires are completed by Local Pension Board and Pensions Committee members.

Pension Fund Risk Register oneSource – Havering –- as at October 2020

Appendix A

Risk No.	Risk Owner	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations	Review of Actions taken to date and further actions identified
	PFM PFM/CMO PFM/CMO	▪ LCIV resourcing – LCIV staff turnover ▪ ICT failure/Disaster Recovery ▪ Cyber Security Risk	▪ Undermines investor confidence in the LCIV. ▪ Loss of infrastructure ▪ Failure of all ICT services ▪ Ransomware risk	• Participates in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness • Guidance from external agencies (some will be at a cost) • ICT/ Disaster Recovery in place • Constant security upgrades to computer systems. Internal Audit for oneSource Cyber Security carried out in Oct 2018.LPP have gained a certificate of Cyber Essentials from		• Continued monitoring of LCIV • Ensure GDPR practice undertaken • Use protected portals to send personal information • Internal Firewalls recommended • Activities are underway to refresh LPP Group’s Cyber Essentials Certification together with obtaining Cyber Essentials Plus certification	• LPP works with the CMO to develop/improve workflow processes • Evidence that working from home to maintain service continuuity susccessful after implemention of COVID-19 working restrictions

Pension Fund Risk Register oneSource – Havering –- as at October 2020

Appendix A

Risk No.	Risk Owner	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations	Review of Actions taken to date and further actions identified
	PFM/CMO CMO CMO PFM/CMO PFM/CMO CMO CMO	▪ Implementation of Oracle Cloud causes pension fund system issues ▪ Poor pension fund administration including outsourced service by LPP ▪ Poor administration by the employers, payroll providers in the fund ▪ Poor monitoring of employer financial status ▪ Poor communications with stakeholders ▪ Excessive charges by suppliers ▪ Employer goes into default, deficit on termination, change of status, financial risk.	▪ Pension Fund Accounts system malfunction • Admission agreements not completed by the transfer date. • Pension costs and payments delayed or incorrect. ▪ 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	March 19 – March 20. • Oracle expertise aware of Pension fund system requirements. Systems tested at each stage of implementation. • Formal agreement in place with administrator, including SLA's • Service is subject to external auditor report of LPP processes • A statutory Local Pension Board is in place to assist the administering authority in effective and efficient governance of the		• Pension Fund Staff to interact regarding the progress of the Oracle Cloud Implementation • That LPP provide Havering with a copy of their external audit once this has been presented to their own audit committee and released • CMO is in place and continues to review the administration work of LPP and report to the LPB • Strengthen the process for Bond reviews.	Further Actions : • Fusion live in September 20 – Testing was undertaken by Pension Staff. System monitoring is on going. • LPP External audit report was received by the CMO on 1st September 20. CMO to take to LPB for further discussion at a future meeting

Appendix A

Risk No.	Risk Owner	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations	Review of Actions taken to date and further actions identified
Page 27			with a high margin of error. ▪ Employer defaults ▪ Employer failure to pay scheme contributions on time ▪ Poor Communication with stakeholders giving rise to disaffection and actions against the Council	Havering Pension Fund • The Council has in place a complaints system to address complaints via the website • CMO in post to review the administration work of LPP • Employer covenants checks undertaken • Bond or guarantee reviews in place and reviewed every three years as part of valuation process • Monthly reconciliations to monitor cash flow carried out. • Ee's and Er's contributions reconciled monthly –late payments chased			• Fund Managers performance is monitored quarterly.

Pension Fund Risk Register oneSource – Havering –- as at October 2020

Appendix A

Risk No.	Risk Owner	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations	Review of Actions taken to date and further actions identified
	PFM	▪ Inappropriate investment accounting – including reliance on third party providers.	▪ Qualified opinion on the accounts by external auditor ▪ Higher employer contributions due to poor investment performance ▪ Insufficient assets to meet short term liabilities	• Fee Invoices checked prior to payment • Pension Fund accounts subject to external audit. • Attendance at accounting seminars/training • Pension Fund uses the service of an external custodian to verify asset values and performance • Attendance at accounting seminars/training • Monitor audited accounts of third party providers to ensure consistent asset valuation. • Monitor investment managers			

Risk No.	Risk Owner	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations	Review of Actions taken to date and further actions identified
				performance – Fund Managers present at Pension Fund Committee meetings • Union Representative at the Committee			
6	S151 Officer /Director of Exchequer and Transactional Services Lower Level as follows: PFM/CMO CMO PFM/CMO PFM/CMO CMO	**Risk of failure to on board or exit employers/members effectively** **Cause:** ▪ Delays in internal processing of documentation ▪ Member data incomplete ▪ Poor communications with stakeholders ▪ Lack of understanding by employers with regard to their responsibilities	▪ Delays in collection of contributions from the employers/members ▪ Impacts cash flow ▪ Potential for litigation ▪ Employer contribution assessment can become out of date	▪ Escalation to Heads of Service ▪ Script in place to deliver to new Academy employers, with feedback process in place ▪ Database maintained on all contact details for LGPS communications.	D/2	▪ Review of internal processes onboarding processes • Template admission agreement awaiting legal clearance	▪ Still in progress lead by the risk officer in LPP

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Pension Fund Risk Register oneSource – Havering –- as at October 2020

Appendix A

Risk No.	Risk Owner	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations	Review of Actions taken to date and further actions identified
		▪ Lack of signed admission agreements from Employers	▪ Potential breach of regulations ▪ Incorrect records of new members ▪ External Audit Opinion on internal controls ▪ Employer's liabilities may fall back onto other employers and ultimately local taxpayers.	▪ Monthly schedules maintained by the Havering Pensions Team ▪ Tracing agencies used to locate pension fund members ▪ Electronic file of required documents forwarded to new employers ▪ Actuarial assessment completed for all new admission requests to assess the level of risk. ▪ TUPE manual completed in November 2017 ▪ Admission policy and manual completed in November 2017 ▪ Bonds and suitable guarantees put into place to protect the			

Risk No.	Risk Owner	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations	Review of Actions taken to date and further actions identified
				Fund in case of default. ▪ Funding level of each employer is assessed as part of the triennial valuation and contribution rates set accordingly. ▪ CMO works closely with LPP.Carries out spot to checks review the work on a regular basis ▪ LPP performance report presented to the Local Pension Board at every meeting ▪ Pensions Accounts review and check all oracle entries relating to pensions against the LPP Altair report on a quarterly basis.		▪ Pensions Accounts refer any oracle queries to LPP for investigation.	
7	S151 Officer Director of Exchequer and	**Risk of Pension Fund Payment Fraud Cause:**			E/1		

Pension Fund Risk Register oneSource – Havering –- as at October 2020

Appendix A

Risk No.	Risk Owner	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations	Review of Actions taken to date and further actions identified
	Transactional Services. Lower Level as follows: CMO PFM/CMO PFM/CMO PFM/CMO	▪ Pension overpayments arising as a result of non-notification in change of circumstances ▪ Internal staff fraud ▪ Staff acting outside of their levels of authorisation ▪ Conflict of interest	▪ Financial loss ▪ Reputational damage of Pension Administration team and Council ▪ Litigation / investigation ▪ Internal disciplinary ▪ Reputational damage	▪ Participate in the National Fraud Initiative (bi-annually) ▪ Process is in place to investigate return of payment by banks. ▪ All pension calculations are peer checked and signed off by senior officer ▪ Segregation of duties within the Pensions Administration Team ▪ Segregation of duties between Payroll and Pensions Teams ▪ Address checked for deferred			

Risk No.	Risk Owner	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations	Review of Actions taken to date and further actions identified
				pensions prior to payment ▪ Internal audit checks carried out ▪ Signed up for DWP database Tell us Once – DWP inform Havering of deaths relating to members of the Havering LGPS fund ▪ September 20 – Mortality Screening outsourced to an external supplier ▪ Pension Fund bank account checked monthly ▪ Register of interests declarations covered at all board/Committee meetings			

Pension Fund Risk Register oneSource – Havering –- as at October 2020

Appendix A

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
LPP	Local Pensions Partnership
MHCLG	Ministry of Housing, Communities and Local Government
PFM	Pension Fund Manager – Finance – Debbie Ford
CMO	Contract Monitoring Officer - Caroline Berry

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 12 January 2021

Subject Heading:	**REVIEW OF VOTING AND ENGAGEMENT ACTIVITY**
CLT Lead:	**Jane West**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	To meet objectives set out in the Investment Strategy Statement
Financial summary:	No financial implications

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

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

SUMMARY

The attached report, produced by the Fund's Investment Advisor (Hymans), presents a summary on the Fund's investment mangers' voting and engagement activities over the 12 month period to 30 June 2020.

RECOMMENDATIONS

That the committee:

1. Note Hymans summary review of fund manager voting and engagement activity attached as **Appendix A**.
2. Note the recommendations as set out in Appendix A and,
3. Agree to continue to engage with London CIV to progress and investigate the possibility of adopting a combined pool policy and,
4. Consider and agree to select a small number of issues to be more actively monitored.

REPORT DETAIL

1. Background

1. The attached report at **Appendix A**, from the Fund's Investment Advisor (Hymans), summarises the Fund's investment managers' voting and engagement activities in support of the Committee's ongoing monitoring requirement as set out in the Investment Strategy Statement (ISS). The review focused on the period for the year to **30 June 2020**.

2. The Fund recognises that its equity assets are invested in pooled vehicles and the Fund's engagement and voting activity is delegated to its investment managers. The Fund does not have its own voting policy, having delegated this responsibility to its investment managers and it remains subject to the voting policies of the managers of these vehicles.

3. The Committee is reminded that they agreed to adopt the belief that effective stewardship can be achieved through voting and engagement to influence corporate behaviours. They also agreed to an increased direct scrutiny of its equity investment managers on their stewardship and, where appropriate, challenge managers on the action they have taken.

4. In line with the Fund's ISS the Committee will on an annual basis:

a. Monitor the voting decisions made by all its investment managers and receive reports from their advisers to support this on an annual basis.

b. 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

c. Reviews voting activity by its investment manager 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.

5. Hymans report attached as **Appendix A** addresses the above for the Committee's consideration.

6. At present, LCIV allows managers to vote in line with their respective house policies with only the Local Authority Pension Fund Forum (LAPFF) voting guidelines being provided in the way of greater direction.

7. The London CIV (LCIV) held a number of meetings with client funds in early 2020 to discuss the options for the voting and engagement process and stewardship monitoring. The majority of the client funds use LAPFF for their voting decisions, which indicates that there should be a greater ground of commonality in voting requirements than differences.

8. LCIV are also exploring the option of appointing an external provider to provide the proxy voting and engagement services.

9. A new Head of Responsible Investment was appointed in June 2020 who is reviewing work undertaken in this area before progressing.

IMPLICATIONS AND RISKS

Financial implications and risks:

No direct financial implications but the Committee has set an objective of seeking to ensure that voting policies are regularly reviewed and updated to ensure that changing practices and regulation can continue to be reflected where necessary. The purpose of influencing behaviour is that they make for better returns over the long term

Legal implications and risks:

There are no apparent legal implications in noting the content of the Report and making the requested decisions.

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

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

BACKGROUND PAPERS

Background Papers List
None

London Borough of Havering Pension Fund

Review of Voting & Engagement Activity

- Simon Jones, Partner
- Mark Tighe, Investment Analyst

November 2020

Executive Summary

- This paper is addressed to the Pensions Committee of the London Borough of Havering Pension Fund ("the Committee" of "the Fund") to summarise the Fund's investment managers' voting and engagement activities over the 12 month period to 30 June 2020.
- This paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation without our prior written consent. We accept no liability where this note is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the note may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.
- During the year, the Fund had investment through three managers across seven mandates with equity exposure. These mandates comprised 65% of total assets representing equity exposure of 47% at 30 June 2020.One of these mandates, managed by GMO was sold down over the year and has since been terminated. This manager has been excluded from this paper. The other two managers are LGIM and LCIV although LCIV's policy is to delegate implementation to the underlying managers, Baillie Gifford and Ruffer.
- We note that over the year, the vast majority of votes that were eligible to be exercised were voted. Of the six mandates considered, only Baillie Gifford's DGF (93%) and Ruffer (97%) were below 99%.
- All managers demonstrated a preparedness to vote against company management on occasion although this is most prevalent in the LGIM mandates where around 18% of votes, on average, we against management. Given the index nature of these holdings, this pattern is to be expected.
- There was a commonality in the reasons why managers voted against management with Remuneration, Director re-election and Capital allocation being key themes. It should be noted that managers may vote against the re-election of directors for a number of reasons which may be unrelated to the particular director.
- LGIM and Baillie Gifford have both reviewed and updated their voting policies over the year, with the changes made being to strengthen and clarify expectations. Ruffer completed a review following year end. LCIV has not reviewed its policy although we understand that LCIV is considering the procurement of a voting and engagement provider.
- We look forward to discussing this paper with the Committee.

Equity and multi-asset: Voting policies

- The Committee has an objective of seeking to ensure that voting policies are regularly reviewed and updated to ensure that changing practices and regulation can continue to be reflected where necessary. The Fund does not have its own voting policy, having delegated this responsibility to its investment managers.

- Managers generally operate a house voting policy that that will apply in the absence of a client specific policy which, in the case of the Fund, would be determined by LCIV. LGIM operate their own voting policy independent of LCIV. LCIV presently delegates responsibility for voting to its investment managers and managers are therefore expected to vote in line with their house policy.

- Two managers with equity voting rights (LGIM and Baillie Gifford) reviewed their voting policy earlier in 2020. Ruffer has not updated its voting policy during the year under review but has subsequently updated its policy as at October 2020. LCIV has not updated its policy during the year. The main changes made by the two managers were as follows:

LGIM

- Emphasised **diversity** by adding expectation for companies in well-governed markets to have at least 25% women on their boards; emphasised **board accountability** and the importance of an external board reviewer; introduced a policy on opposing the re-election of any combined CEO/Chair; emphasised **independence** by extending their policy on the presence of a Senior/Lead Independent Director and increased their expectations around **Audit** to not support executive members on an audit committee and that the process of retendering an auditor should be disclosed.

Baillie Gifford

- Emphasised five stewardship principles, being prioritisation of long-term value creation; a constructive and purposeful board; long-term focused remuneration; fair treatment of stakeholders and sustainable business practices.

- Added detail to their policy to clarify **significant voting situations**, clarified their view of **excessive equity issuance** being detrimental to long-term value creation and framed expectations around **shareholder proposals**, expecting these to not be repetitive, prescriptive or seek to micromanage companies.

HYMANS ROBERTSON

Equity and multi-asset: Exercise of votes

	LGIM PRI rating for Listed Equity Ownership (LEO) A+			Baillie Gifford LEO: A+		Ruffer LEO: A
	All World	Emerging Markets	RAFI	Global Alpha	DGF	Absolute return
# eligible votes	40,386	12,560	39,276	1,217	966	1070
% votes exercised	99.8	99.7	99.3	100.0	93.3	96.8
% against management	18.3	17.7	18.8	3.5	5.3	10.1
% abstained / withheld	0.5	1.2	0.3	1.1	1.5	2.1
% meetings with at least one vote against management	67.4	55.8	71.5	25.0	6.7	41.0

- The Fund has direct exposure to equities via LGIM and Baillie Gifford mandates, with additional exposure obtained through multi-asset mandates managed by Baillie Gifford and Ruffer. Whist these mandates represented 65% of total assets, on a look through basis, investment in equity assets represented c. 47% of Fund assets as at 30 June 2020
- The table above provides a summary of voting over 12 month period to 30 June 2020. We can observe the following from this data:
  - The exercise of voting rights was high across most mandates. Ruffer did not vote at 2 of 83 meetings in which they were eligible to invest.
  - Abstentions/withheld votes are relatively low. Managers are generally exercising their rights
  - LGIM are the most active of managers, voting against management on c18% of occasions. Given the LGIM funds are index tracking, we may expect this to be the case as LGIM do not otherwise have the option of divestment. Both Baillie Gifford and Ruffer actively select stocks and, should, on average have a greater alignment of interests.

Equity and multi-asset: Significant votes/engagement

Manager	Main reasons to vote against management	Significant votes	Main engagement themes
LGIM	1. Capital allocation 2. Remuneration 3. Director-related 4. Routine 5. Allocation of income	• The Boeing Company. Voted against re-election of the chair of the board. LGIM felt the board should be held accountable for not exercising sufficient oversight over the company's culture in light of the 737 Max accidents and therefore voted against the board chair. • Honeywell. Voted against Executive Officers' compensation package. Following engagement with the company, LGIM decided not enough of the remuneration package was assessed against performance conditions.	1. Climate change 2. Remuneration 3. Diversity 4. Board composition 5. Strategy
Baillie Gifford	1. Director-related 2. Non-salary remun. 3. Routine 4. Capital allocation 5. Reorgs./Mergers	• Microsoft. Supported a shareholder proposal on enhanced gender pay gap reporting. • Ryanair. Voted against remuneration report due to concerns over retention plan for CEO and the granting of share options to independent board members.	1. Climate Change 2. Board Matters 3. Remuneration 4. Company Culture and Employee Relations 5. Diversity
Ruffer	1. Director-related 2. Remuneration 3. Capital allocation 4. Routine 5. Reorgs./Mergers	• ExxonMobil: Voted against the re-election of all non-exec directors due to slow progress on addressing climate issues. Also voted in favour of a shareholder resolution for an independent chair. • Lloyds Banking Group: Voted against proposed remuneration policy as although it reduced the maximum pay-out, it also relaxed the vesting period and was not felt to incentive management adequately. • Ocado: Voted against re-election of the Chair due to discomfort with the Board structure and pace of rectification.	1. Climate change 2. Data disclosure (environment related) 3. Employee / community relations 4. Board structure 5. Remuneration

HYMANS ROBERTSON

Real assets: Stewardship and engagement

Manager	Engagement approach and examples of engagement
JP Morgan	• In order to focus and prioritize ESG efforts across the portfolio, JP Morgan has created a framework that categorizes ESG into component parts that are actionable, measurable and relate to the daily activities of an underlying investment. JP Morgan recently engaged with a third-party to align the ESG in Action framework with additional ESG metrics and disclosures. • JP Morgan's Increased ownership of Koole Terminals led to more sustainable initiatives being implemented. This include an agreement to produce IMO 2020-compliant bunker fuel at its site at the Port of Rotterdam. This agreement supports the reduction of Sulphur emissions in order to reduce air pollution and is in line with Koole's focus on producing environmentally friendly transportation fuels
UBS	• The UBS Real Estate and Private Markets' (REPM) responsible investment strategy has been developed by the UBS REPM Sustainability Workgroup. It comprises professionals from several countries and disciplines, ranging from engineering and construction, through to investment and business management. It sets strategies and objectives at a global level and ensures our sustainability objectives are appropriately integrated into REPM's investment strategies and property operations, in accordance with regional requirements. • The Sustainability Workgroup established an engagement framework which over the year to 30 June 2020 was primarily focused on raising awareness of climate change issues and reducing energy and water consumption with underlying investments.
CBRE	• CBRE have recently launched an internal ESG assessment framework to rate each investment's status and approach to ESG. The primary purpose of this mapping is the identification of future ESG risks and opportunities and development of a targeted engagement strategy for each investment • CBRE worked with management at an underlying holding, a Malaysian shopping centre, to improve the holding's ESG practices leading to the holding's individual GRESB score rising from 50 in 2018 to 79 in 2019. CBRE also worked with management at the shopping centre to transfer to LED lighting and upgrade the water pumping system in the building, leading to a 5.2% fall in annual energy consumption and a 13.7% reduction in annual water usage.
Stafford	• Stafford maintain a Sustainable Development Goal ("SDG") database which consists of an assessment of every underlying infrastructure asset and any applicable SDG targets applied to the relevant asset. This is a live database and is updated for any new transactions, including periodic review of existing assets.

Fixed income: Stewardship and engagement

Manager	Engagement approach and examples of engagement

Royal London	• Royal London have an established process for engaging with companies and will make the decision to engage according to the following criteria:
	  • Meet the needs and expectations of clients
	  • Material and relevant to investment decisions
	  • Has the potential to impact corporate ESG or financial performance or reduce risk
	  • Raises best practice standards within a sector or market
	  • Adds value in advancing thought-leadership and good governance
	• Across Royal London's fixed income business they engaged with underlying companies on 96 occasions over the 2019 calendar year. The most common engagement topics were: climate related, environmental management and health and safety.

Churchill	• Churchill's senior lending investment team have recently implemented a new ESG template that is broader and more enhanced than what the team were previously using. The new ESG template is being used to not only flag issues (as the previous system did) but will also help to develop proprietary ESG ratings for all of Churchill's investments. The team is currently in the process of creating these ratings, and expect to have completed the rating process by the end of 2020. • An example of engagement to develop a socially positive outcome is with portfolio company LRN. Churchill have worked with LRN to develop compliance training software that enables customers to assess, train and monitor compliance with industry and company-specific regulations, rules of conduct and requirements.
Permira	• In 2019, Permira expanded their existing ESG Group to include three investment professional advisory members and Permira's Chief Operating Officer. The group also includes members from ESG, Investor Relations, Risk and Compliance and the portfolio group. • Permira actively engage with portfolio companies, engaging with four portfolio companies on specific ESG issues within the 12 months to 30 June 2020. • Engagement activities in the past year include a site visit made to Kinaxia, a UK haulage and warehouse business. The ESG team visited the Kinaxia facility to tour operations and meet with management to discuss progress on ESG topics identified during a similar visit in 2017. New projects and ESG related aspirations were also discussed.

HYMANS ROBERTSON

Recommendations

- Managers have exercised voting policies for the Fund in line with expectations and there are no immediate concerns arising at this time. In accordance with its stewardship policy, the Committee should continue to monitor the practices of its managers.
- LCIV is responsible for voting and policy for the active equity and multi-asset vehicles. At present, this responsibility is delegated to the underlying managers. It would be appropriate for these rights and responsibilities to be consolidated to represent a single LCIV position and we propose the Committee continue to engage with LCIV and investigate the possibility of adopting a combined pool policy.
- To aid the ongoing monitoring of voting activity and improve the challenge by the Fund to its managers, we propose that the Committee select a small number of issues to be more actively monitored. Climate risk disclosure has already been highlighted as one issue in the Fund's updated policy but others could include executive remuneration, diversity and the independence of auditors. Future reporting could then explicitly consider these issues.

HYMANS ROBERTSON

Thank you

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 12 January 2021

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

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

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

SUMMARY

The Funding Strategy Statement (FSS) is a Statement of the Havering Pension Fund's ("the Fund") approach to funding its liabilities, focusing on how employer liabilities are measured, the pace at which these liabilities are funded and how employers pay for their own liabilities.

The FSS requires updating to reflect the ***"Local Government Pension Scheme (Amendment) (No.1) Regulations 2020"*** which permits Funds to determine the amount of exit credit payable to an employer leaving the Local Government Pension Scheme (LGPS).

The FSS requires updating to reflect the ***"Local Government Pension Scheme (Amendment) (No.2) Regulations 2020"*** which enables deferment of exit payments in return for a deferred debt agreement, to obtain a revised rates and adjustments certificate to show changes to Scheme employer contributions and to offer employers exiting the Local Government Pension Scheme to spread exit payments.The FSS applies to **all** employers participating in the Fund

RECOMMENDATIONS

That the Committee:

1. Agree the updated Funding Strategy Statement attached as **Appendix A** which reflects the changes set out in regulations.

REPORT DETAIL

1. **Background**

   a) The FSS was agreed by the Pensions Committee ("the Committee") at its meeting on the 7 December 2019.

   b) Since the FSS was published two amendments have been made to the Local Government Pension Scheme (LGPS), which requires the FSS to be updated:

      I. ***"Local Government Pension Scheme (Amendment) (No.1) Regulations 2020",*** enables the Fund to create a discretion for administering authorities to determine the amount of exit credit which should be payable to an employer leaving the LGPS.

      II. ***"Local Government Pension Scheme (Amendment) (No.2) Regulations 2020"***, which enables deferment of exit payments in return for a deferred debt agreement, to obtain a revised rates and adjustments certificate to show changes to Scheme employer contributions and to offer employers exiting the Local Government Pension Scheme to spread exit payments.

c) LGPS Regulations 2013, Regulation 64 will be amended to reflect the above changes. Each of these regulation changes are covered in more detail in the following sections:

2. Local Government Pension Scheme Regulations (Amendment (No.1)

a. Section 3(3) (b) of the Public Service Pensions Act 2013 provides that scheme regulations may make retrospective provision. *Local Government Scheme (Amendment) (No.1) Regulations 2020"* came into force on **20 March 2020** and have retrospective effect from **18 May 2018**.

b. Regulation 64 of the 2013 Regulations was amended from the 18 May 2018 to allow exit credits to be paid where a scheme employer ceases to have any active members of the LGPS (and is not planning to enrol anyone further in the scheme). An exit valuation surplus (exit credit) is paid when it has been determined by the Funds Actuary that the pension liabilities are less than the assets held by the employer at the date of exit from the Pension Fund.

c. It is proposed that determination of the exit value be calculated by the Fund's appointed Actuary in accordance with the factors set out in the LGPS 2013 Regulation 64 (as amended).

d. The FSS has been updated and prepared in conjunction with the Fund's Actuary to reflect how the exit credit will be determined, incorporating any changes required by these regulations. The updated sections have been highlighted in Green with the main changes shown on page 18.

3. Local Government Pension Scheme Regulations (Amendment (No.2)

a. *Local Government Scheme (Amendment) (No.2) Regulations 2020"* came into force on **23 September 2020.**

b. The new regulations 3 and 4 which amend Regulation 64 LGPS Regulations focus on three key areas:

- **Review of employer contributions** - to allow administering authorities to review employer contributions where there has been a "significant change" to the liabilities or covenant of an employer. Market volatility, and changes to asset values, would not be a proper basis for a change in contributions outside a full valuation but it is recognised that changes to pension surplus or deficit due to market conditions can affect covenant and may trigger a review of contributions. Currently employer contributions can only be reviewed at formal valuations or when an employer is "likely" to exit the fund. Regulation changes allow for employers to be able to request a review of contributions from the administrating authority provided they agree to meet the cost of the review. Policy on review of employer contributions is set out in the FSS – see section 3.3 Note (f) - changes highlighted in blue (FSS page 15 refers)

- **Spreading exit payments** - to allow administering authorities the ability to spread exit or cessation payments after exit, over a period which it "considers reasonable. Policy on spreading exit payments can be found under section 3.3 Note (j) - changes highlighted in yellow.(FSS page 18 refers)
- **Deferred Debt Agreements (DDAs)** - introduce "deferred employer" status and DDAs within the LGPS for exiting employers. This will formally allow secondary contributions to be certified for employers with no active members and be subject to revision at formal valuations. The DDA must set out the "specified period" over which the arrangement will run and the termination events. The circumstances under which the Administrating Authority will consider DDA's is set out in the FSS Section 3.3 Note (J). Changes highlighted in Grey.(FSS pages 19- 20 refers).

c. These updates to the FSS have been prepared in conjunction with the Fund's Actuary to reflect the change in the regulations

4. Consultation and publication

a. Regulation 58(3) of the LGPS Regulations 2013 states that following a material change in its policy the authority should consult with such persons it considers appropriate. The FSS is being updated to meet regulatory changes and adopted policies are in line with regulations but given the potential impact on Fund employers resulting from the use of the new powers to manage and mitigate employer risk it is expected that all Fund employers would be considered as 'appropriate' for consultation.

b. The DRAFT version of the FSS was distributed to all participating employers in the Fund on the **9 December 2020** for comments. Deadline for responses is the **8 January 2021**.

c. All responses will be considered but ultimately, responsibility for finalisation and publication of the FSS lies with the administering authority. If after consideration of responses and no changes are made, then the draft as submitted with this report will be accepted as the final version and published accordingly.

d. If as a result of the consultation changes are required, the Committee is asked to delegate to the Chair and the Statutory Section 151 officer to approve the final version of the FSS.

e. Once the updated FSS has been approved it will be published on the administering authority websites and employers will be notified of where to access the FSS online. It will also be included in the Pension Fund Annual report.

IMPLICATIONS AND RISKS

Financial implications and risks:

Exit Credits - Any admissions to the Fund pre the enforcement date of 18 May 2018 will not be excluded from the exit credit regime. Exit credits would not have been a consideration at the time of letting the contract and this could be one of the considerations taken into account when calculating the exit valuations permissible under any other relevant factor

Any representations made by the employer and its letting authority/guarantor, under these regulations may lead to higher actuarial, legal and internal management costs. These costs will be met by the employer so there is no cost to the Fund.

Allowing exiting employers to have the flexibility to have contributions reviewed, spread costs or enter into DDAs may provide a greater likelihood of the Fund receiving full payment of the exit costs.

The Fund currently has seven admitted bodies of which four have a contract expiry date before March 2023 and will incur exit costs in the near future. As at 30 November the combined value of deficits are £351k and surpluses of £27k.

Legal implications and risks:

The substantive legislative framework is set out in the Report and will not be repeated here. The changes made to the FSS ensure that it is updated and reflects the two sets of amending regulations. The *"Local Government Scheme (Amendment) Regulations 2020/179"* permits Funds to determine the amount of exit credit payable to an employer leaving the Local Government Pension Scheme (LGPS). Whilst the legislation has retrospective effect, this does not apply to any cases where an exit payment has already been made. There was one case where an exit payment was made before March 2020 and after May 2018. Whilst the Funding Strategy Statement may not have been immediately updated, the Regulations in their amended form will have primacy if there is any dispute.

The discretions referred to at new regulations 64 (2ZC), (7A), (7B), 64A and 64B LGPS Regulations 2013 will need to be exercised reasonably and guided by professional actuarial advice.

The requirements of a fair consultation include that the consultation proceeds at a formative stage before final decisions have been taken, that consultees are given sufficient time and information in order to comment meaningfully, and that any responses are conscientiously taken into consideration before a final decision is made.

These principles appear to have been applied so long as the final decision makers take the consultation responses into account before finalising the Funding Strategy Statement.

Stephen Doye, Head of Law (Community)

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

BACKGROUND PAPERS

Background Papers List
None

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HYMANS ROBERTSON

London Borough of Havering Pension Fund

Funding Strategy Statement

December 2020

Contents

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Havering Pension Fund ("the Fund"), which is administered by London Borough of Havering, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 15 December **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 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 Appendix E)		Ongoing, but may move to "gilts exit basis" - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)	
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No				
Maximum time horizon – Note (c)	20 years	20 years	Future working lifetime subject to a maximum of 15 years		Outstanding contract term subject to a maximum of 15 years	
Secondary rate – Note (d)	Monetary Amount or percentage of pay as appropriate					
Treatment of surplus	Covered by stabilisation arrangement	Contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority			Reduce contributions by spreading the surplus over the remaining contract term	
Likelihood of achieving target – Note (e)	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 – Note (f)	Review of rates will be carried out in line with the Regulations and as set out in **Note (f)**					
New employer	n/a	Note (g)	Note (h)		Notes (h) & (i)	
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 Note (j).		Can be ceased subject to terms of admission agreement. Exit valuations will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Exit valuations 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 Note (j) for further details.	

* 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)

Under the Regulations the Fund may amend contribution rates between valuations for "significant change" to the liabilities or covenant of an employer. The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the scheme within the next two years and before completion of the next valuation;
- an employer agrees to pay increased contributions to meet the cost of an award of additional pension, under Regulation 31(3) of the Regulations;

- there are changes to the benefit structure set out in the LGPS Regulations including the outcomes of the McCloud case and cost sharing mechanisms (if permitted in Regulation at that time) which have not been allowed for at the last valuation;
- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of an employer or employers to meet their obligations (i.e. a material change in employer covenant);
- it appears to the Administering Authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority.

The Administering Authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially or they are going through a significant restructuring impacting their membership).

Except in circumstances such as an employer nearing cessation, the Administering Authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation. It should be noted that any review may require increased contributions.

Note (g) (New Academy conversions)

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

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The 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;

iv. 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

v. 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 (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor. 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. Please note, the level of surplus would be determined by the Administering Authority in accordance with the Regulations and this FSS.

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 Exiting the Fund)

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;
- 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; or
- On termination of a deferred debt agreement.

On cessation, the Administering Authority may put in place a deferred debt arrangement or 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. The Fund's normal policy is that this cessation debt is paid in full in a single lump sum within 30 days of the employer being notified. However, in line with the Regulations, the Fund may agree this payment to be spread over a period not exceeding 3 years, however, such agreement would only be permitted at the Fund's discretion, where payment of the debt in a single immediate lump sum could be shown to be materially detrimental to the employer's normal operations. In cases where payment is spread, the Fund reserves the right to require that the ceasing employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time.

Where there is a surplus, the Administering Authority will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the Administering Authority will consider the extent of any surplus, the proportion of surplus arising as a result of the employers contributions, any representations (such as risk sharing agreements or guarantees) made by the employer and any other employer providing a guarantee and any other pertinent information. 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 Administering Authority may enter into a written agreement with the Admission Body to defer their obligations to make an exit payment and continue to make secondary contributions (a 'deferred debt agreement'). The Admission Body must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund Actuary until the termination of the deferred debt agreement.

The Administering Authority will consider deferred debt agreements in the following circumstances:

- The Admission Body requests the Fund consider a deferred debt agreement;
- The Admission Body is expected to have a deficit if a cessation valuation was carried out;
- The Admission Body is expected to be a going concern; and
- The covenant of the Admission Body is considered sufficient by the Administering Authority.

The Administering Authority will normally require:

- Security be put in place covering the Admission Body's deficit on their cessation basis;
- Regular monitoring of the contribution requirements and security requirements;
- All costs of the arrangement are met by the Admission Body, such as the cost of advice to the Fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A deferred debt agreement will normally terminate on the first date on which one of the following events occurs:

- the Admission Body enrols new active Fund members;
- the period specified, or as varied, under the deferred debt agreement elapses;
- the take-over, amalgamation, insolvency, winding up or liquidation of the Admission Body;
- the Administering Authority serves a notice on the Admission Body that the Administering Authority is reasonably satisfied that the Admission Body's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months;
- the Fund actuary assesses that the Admission Body has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. Admission Body is now largely fully funded on their cessation basis);
- the Fund actuary assesses that the Admission Body's value of liabilities has fallen below an agreed *de minimis* level if the employer becomes an exiting employer on the calculation date; or
- The Admission Body requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the Admission Body pays their outstanding cessation debt on their cessation basis).

On the termination of a deferred debt agreement, the Admission Body will become an exiting employer and a cessation valuation will be completed in line with this FSS.

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 interv-aluation 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:-

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

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

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

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- 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;
- 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.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure four key outcomes. Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. 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.

Risk	Summary of Control Mechanisms
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
Academy school ceases due to failure.	The Fund seeks a cessation valuation and makes a claim to the Secretary of State for Education under the Academies guarantee.
Admission Bodies failure.	The Fund will seek to have in place a bond/indemnity and/or 'pass-through' arrangement with scheme employer or a tripartite admission agreement.
Effect of possible asset underperformance as a result of climate change	Explicitly consider ESG issues when setting the overall funding and investment strategies. Carry out scenario testing on potential Government policy changes when evaluating funding and investment strategies.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.

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

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The 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. Explicit allowance has been made in Employer funding plans to help manage the potential effects of McCLoud. The Government's long term preferred solution to GMP indexation and equalisation – conversion of GMPs to scheme benefits – was built into the 2019 valuation.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor.

Risk	Summary of Control Mechanisms
	Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3). Consider the use of a deferred debt arrangement if the employer is a going concern with sufficient covenant.
An employer ceasing to exist resulting in an exit credit being payable.	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. The Administering Authority invests in liquid assets which can be realised to meet any exit credits as and when required.

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:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below);
- at the end of the determined time horizon (see 3.3 Note (c) for further details);
- 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
- 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?

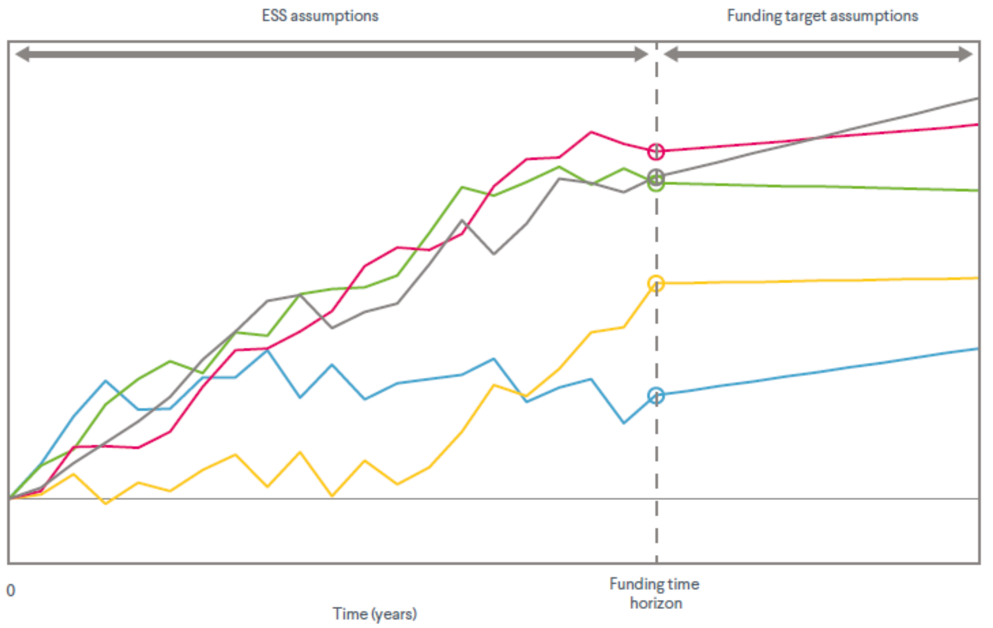
These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). 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									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
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 targer?

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
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	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

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

Funding basis	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 hoizon. 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.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Bond Indemnity	To cover early termination of a contract due to, but not limited to, • funding strain arising from the early payment of liabilities that will arise as a consequence of redundancy if the Employer goes into liquidation, insolvency or winds up. Employees over age 55 are eligible for immediate payment of pension in the event of being made redundant; • any general funding shortfall, arising from variations between experience and assumptions used when determining the ongoing Employer's contribution rate; and • a provision to cover the potential liability due to adverse market conditions over the period until the next actuarial valuation. This bond does not cover any final cessation payments at the end of a contract.
Cessation Valuation	At the natural end of a contract or when the last active member of an employer retires, a cessation valuation is carried out to determine the final contribution due from the employer or the excess of assets over the value of the liabilities The final contribution or exit credit due may be subject to a 'pass-through' arrangement with the scheme employer.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.

Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy. The letting employer will meet the actuarial fees for setting contribution rates and any bond reviews.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 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.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Pass-through	A risk sharing agreement between the letting employer and the contractor.
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active

	members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at 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.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE **12 January 2021**

Subject Heading:	LOCAL PENSION BOARD ANNUAL REPORT – YEAR ENDED 31 MARCH 2020
SLT Lead:	Sarah Bryant
Report Author and contact details:	Caroline Berry Pensions Projects and Contracts Manager Caroline Berry@havering.gov.uk 01708 4323185
Policy context:	The report has been produced in line with guidance issued by the Scheme Advisory Board
Financial summary:	The report notes the budget set for the period April 2019 to March 2023 as agreed by the S151 Officer

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 Local Pension Board Annual Report 2019-20

RECOMMENDATIONS

1. The Committee to note the 2019/20 Local Pension Board Annual Report

2. The Committee to agree the Local Pension Board Annual Report will be published electronically.

REPORT DETAIL

1. The Local Pension Board Annual Report 2019/20 has been produced in line with the guidance issued by the Scheme Advisory Board.

2. The Annual Report has been produced to ensure Pensions Committee are aware of work undertaken by the Board during the year and their future work plans. The report details activities undertaken during 2019/20 and focusses on the planning and development of a robust action plan for the board to consider with relevant training and development for the coming year. (for the report see Appendix A)

IMPLICATIONS AND RISKS

Financial implications and risks:
There are no financial implications regarding this report

Legal implications and risks:
As this report is for information only there are no direct legal implications

Human Resources implications and risks:
The recommendations made in this report do not give rise to any identifiable HR risks or implications that would directly, or indirectly, affect either the Council or its workforce.

Equalities implications and risks:
There are no equality implications regarding this report

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LONDON BOROUGH OF HAVERING

LOCAL PENSION BOARD

ANNUAL REPORT

2019/20

INDEX

Opening remarks.

It is our pleasure, to introduce the Board's 2019/20 Annual Report. The Board's task is to assist the council by making sure it is administering the Local Government Pension Scheme (LGPS) effectively and efficiently and is compliant with the law.

The Board have two year work plan to tackle the areas deemed as most important to the administration of the fund and has worked hard during the year to deliver the objectives of the work plan. More detail on the work plan and the work completed can be found in the body of this report.

The Board met formally four times from April 2019 to March 2020 to discharge its duties. Board members completed online training and attended training and pension workshops during this period to enhance their knowledge in preparation for specific topics and spent time reviewing documents in preparation for board meetings. Details of the completed training are provided in Appendix 1.

We would like to thank officers for their hard work and support in researching and preparing information for the discussions at pension board meetings and the on-going support and guidance for the board.

The pension environment is continually changing and the Board endeavours to keep abreast of these changes and is working hard to support and assist the council's pension administration in maintaining the high standards in the administration of the Fund.

The Board continues to develop its knowledge and skills and is actively working through the items on the work plan.

In March 2020 and in response to the COVID-19 pandemic, Havering Council and the Local Pensions Partnership successfully initiated their Business Continuity Plans to ensure that services to LGPS members and employers remained excellent and Scheme governance was maintained. Where possible officers are homeworking and Board meetings are currently held virtually.

Members of the Local Pensions Board

Introduction

1. Local Pension Boards (LPB) are constituted entirely under the Public Service Pensions Act 2013 and are not local authority committees.

2. The role of each Board is to help ensure each scheme complies with governance and administration requirements. They may have additional duties, if scheme or other regulations so specify.

3. Pension Boards need to have an equal number of employer and member representatives. They may also have other members, such as independent experts. All Pension Board members have a duty to act in accordance with scheme regulations and other governing documents.

4. Scheme regulations (or scheme-specific guidance) may provide further detail on the scope of the Pension Board and how it should operate, for example how many Pension Board members need to attend a meeting to be quorate and how often it should meet.

5. This Annual Report has been established to ensure Pensions Committee are aware of work undertaken during the year and the future work plans.

Role of the Local Pension Board

1. The role of the Local Pension Board, as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is to: -
    - Assist the London Borough of Havering 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 London Borough of Havering Pension Fund;
    - Provide the Scheme Manager with such information as it requires ensuring that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.
2. The Pension Board will ensure it effectively and efficiently complies with the code of practice of the governance and administration of public service pension schemes issued by the Pension Regulator;
3. The Pension Board will also help ensure that the London Borough of Havering Pension Fund is managed and administered effectively and complies with the

code of practice on governance and administration of public service pensions schemes issued by the Pension Regulator;

4. The Pension Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively;
5. In support of its core functions the Board may make a request for information to the Pensions Committee with regard to any aspect of the Administering Authority's function. Any such request should be reasonably complied with in both scope and timing;
6. In support of its core functions the Board may make recommendations to the Pensions Committee which should be considered and a response made to the Board on the outcome within a reasonable period of time.

Membership of the Board

The Board consists of 4 voting members, two representing employers and two representing scheme members.

Board members were appointed for a fixed term of 4 years, which could be extended for further periods subject to re-nomination.

Substitute members are not permitted.

Each Board member should endeavour to attend all Board meetings during the year and are required to attend at least 4 meetings each year, one of which must be the Annual Meeting.

In the event a Board member failed to attend three consecutive meetings, that individual would automatically be disqualified, unless failure was due to some reason approved by the Board before the date of the third consecutive meeting.

Denise Broom and Andrew Frater are appointed as Employer representatives and Mark Holder and Anne Giles as Scheme Member representatives.

Board Meetings

The Board met on five occasions up to the end of the financial year.

Meetings took place on 2 April 2019, 5 June 2019, 20 August 2019, 1 October 2019 and (informally) 7 January 2020.

Matters discussed by the Board

The following matters have been discussed by the Board:

- Review of work plan
- Support for the Board
- Details of the Board's budget
- Pensions Committee meeting updates
- The Pensions Regulator compliance checklist
- The Pensions Regulator's review of the Havering Fund
- Performance of the Pensions Administration Service
- Communications Campaign
- The Risk Register
- Terms of Reference
- Audit of the Pensions Administration provider
- Data scores
- Code of Transparency

There have been no conflicts of interest involving any of the work undertaken by the board or during any agenda items. Minutes of the meetings can be found at www.havering.gov.uk and by following Council and Democracy \ Councillors, senior staff and decision making \ Committees \ Committee details

Training

The board members are committed to the legal requirement to acquire the appropriate knowledge and skills and to demonstrate and evidence these legal requirements. To do this the Committee and the Board jointly adopted the CIPFA Knowledge and Skills Framework (KSF) in 2015, it has adopted a register that shows that the training and development being undertaken during the year. The register can be found in Appendix 1.

To summarise:

Members have attended a variety of externally provided courses and seminars.

Individuals have completed on-line learning from the Pensions Regulator as well as other self-directed learning which includes reading and e-learning.

All members have undertaken a training needs analysis.

Further training events will be organised once the training requirements of the pension committee have been assessed.

Financial Position

Local Government Pension Scheme Governance Regulations 2015 section 106(9) states that the expenses of a Local Pension Board (LPB) are to be regarded as part of the costs of administration of the fund held by the administering authority.

Guidance issued in January 2015 suggested that it is appropriate for the LPB to be given adequate resources to fulfil its task.

Terms of reference adopted by Governance Committee on the 11 March 2015 and then the Council meeting on the 25 March 2015 also states that the LPB is to be provided with adequate resources to fulfil its role.

The estimated budget agreed by the Administering Authority's Statutory Section 151 officer and costs incurred for 2019/20 are shown in the following table:

Description	**2018/19 Actual £**	**2019/20 Estimate £**	**2019/20 Actual £**	**2020/21 Estimate £**	**2021/22 Estimate £**	**2022/23 Estimate £**
Members Allowance & Travelling	1,673	3,000	946	3,000	3,000	3,000
Support Services – Internal Recharge	1,075	1,000	640	1,000	1,000	1,000
Printing, Stationary & Office Expenses	0	3,400	0	3,400	3,400	3,400
Communication & Computing	0	500	0	500	500	500
Professional Advice	0	10,000	0	10,000	10,000	10,000
*****Training & Development	1,430	10,000	295	10,000	10,000	10,000
Total	**4,178**	**27,900**	**1,881**	**27,900**	**27,900**	**27,900**

*****Training costs of £10,000 is to be shared with the Pensions Committee to keep officer time and training costs to a minimum. The amounts shown above represent the LPB share of the costs.

Budgets have been set to cover a four year period from 2019/20 to 2022/23 to reflect the period of term that the LPB appointees will serve. 2019/2020 is the fifth operational year of the LPB.

1) The LPB is accountable to the Administering Authority and prior approval was sought from the Section 151 officer to amend budgets. It was agreed by the board that the 4 year budget be reduced by £7,000 from £34,900 to £27,900 as a reduction in support service recharges had resulted in low costs year on year.

The cost for the LPB is met from the Havering Pension Fund and approved by the Administering Authority's Statutory Section 151 Officer.

The Future

A new 18/24 month work plan for 2020/21 and 2021/22 is currently being discussed.

The list below is the draft areas being considered:

1. To ensure that the Pensions Regulator compliance checklist has been completed and is reviewed regularly.
2. To ensure that a process is in place to make any items that have been identified as being non-compliant or partially compliant from the Pension Regulator compliance checklist are made fully compliant within agreed and acceptable timescales. Any items that cannot be made fully compliant are added to the risk register with a clear explanation as to the reasons why.
3. To request that the scheme manager provide evidence that the Administering Authority is meeting the pension regulators requirements in any areas that we require further assurance.
4. To regularly review the key performance indicators and statistical information relating to the administration of the scheme and ensure an action plan is in place for indicators that are not meeting the agreed target.
5. To ensure that investment managers disclose all their fees and charges and are progressing towards the local government pension scheme cost transparency code.
6. To monitor pensions administration provided by Local Pensions Partnership (LPP) and ensure that any changes are well planned and documented.
7. To ensure that the scheme manager fully plans for any new legislation and we are compliant with all aspects of any new legislation.
8. Report regularly to the pensions committee on the work of the pension board and ensure that there is good communication between the two boards.

The Work Plan will be a live document and subject to change as necessary with a formal review at least every two years

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
29 June 2015	Hymans – Fund Actuary delivered training: Why we are here Roles & Responsibilities Knowledge & Skills Brief overview of LGPS	Hyman's Office – One London Wall	KSF 1	£3,500 (shared equally between LBH and Redbridge)	Justin Barrett – Employer rep Mark Holder - Member rep Marshajane Thompson – Member rep David Holmes – Employer Rep
12 Aug 2015	Officers - Local Pension Board Induction covered: ○ Brief overview of the havering Pension fund ○ How the scheme is funded ○ Governance Structure ○ Key parties in the Fund ○ Investment Monitoring ○ Strategy documents ○ Valuation ○ LPB reporting requirements	Town Hall – Prior to Local Pension Board meeting	KSF 1,2,4,5 & 6	Officer Time	Mark Holder - Member rep Justin Barrett – Employer rep (chair)

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
6 January 2016	Hymans – Fund's Actuary delivered TUPE Transfer Training, covered: • What is TUPE • Pension Protection & Regulations • Admission bodies documents & securities • Cessations	Town Hall – prior to Local Pension Board meeting	KSF 6	£3,500	Mark Holder - Member rep Justin Barrett – Employer rep (chair)
25 April 2016	Pensions & Lifetime Savings Academy (PLSA) covered: • Governance Structure of LGPS • TPR approach to governance & Admin • Purpose & Responsibilities of National & Local Pensions Boards	PLSA Offices, London	KSF 1	£450.00 + VAT	Mark Holder – Member Rep
15 June 2016	Pensions & Lifetime Savings Academy (PLSA) covered: • Governance Structure of LGPS • TPR approach to governance & Admin • Purpose & Responsibilities of National & Local Pensions Boards	PLSA Offices, London	KSF 1	£900.00 + VAT	Marshajane Thompson – Member Rep Justin Barrett – Employer Rep (chair)

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
7 October 2016	Eversheds – LGPS: New Challenges, covered: • Update on LGPS Pooling • New Fair Deal update • 2016 Valuations • Legal, Investment & Brexit update	Eversheds, one Wood Street, London	KSF 1 & 6	£100?	David Holmes – Employer Rep
28 November 2016	Pensions & Lifetime Savings Academy (PLSA) covered: • Governance Structure of LGPS • TPR approach to governance & Admin • Purpose & Responsibilities of National & Local Pensions Boards	PLSA Offices, London	KSF 1	£450.00 + VAT	David Holmes – Employer Rep
13 December 2016	Hymans - Joint training with Pensions Board - Valuation 2016 Results covered: • 2016 Valuation framework • Valuing liabilities • Actuarial assumptions • 2016 results • What changed since 2013	Havering Town Hall	KSF 6	£2,000	Mark Holder – Member rep David Holmes – Employer Rep

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
23 January 2017	Hymans - Joint Training with Pensions Board – Investment Strategy Training covered; • New investment Regulation 2016 • Overview of ISS/DCLG Guidance • What changed between SIP/ISS • Asset allocation rebalancing • Investment strategy evolution • Investment objectives • Overview of UK Stewardship code • Credit Strategies	Havering Town Hall	KSF 5	£2,100	Justin Barrett – Employer Rep (chair) Mark Holder – Member Rep David Holmes – Employer Rep Anne Giles – Member Rep
1 February 2017	London CIV Stewardship Seminar	Guildhall, City of London	KSF 1	Free	Mark Holder – Member Rep
1 March 2017	LCIV Annual conference including fund manager sessions		KSF 4/5	Free	Mark Holder – Member Rep
28 June 2017	CIPFA & Barnett Waddingham – Local Pension Boards Two years on	Cheapside House, 138 Cheapside, London EC2V	KSF 1 & 2a	£175	David Holmes - Employer Rep Mark Holder – Member Rep Anne Giles – Member Rep

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
3 November 2017	Association of Colleges	Webinar		FREE	David Holmes – Employer Rep
6 November 2017	CIPFA & Barnett Waddingham – LPB Autumn Seminar covers: Latest LGPS updates Reporting Breaches of Law Investment Regulations & related key policies	Cheapside House, 138 Cheapside, London EC2V		£125	Ann Giles – Member Rep Virpi Raivio- Employer Rep
21 November 2017	Hymans – Actuary- Admissions and TUPE policies	Havering Town Hall	KSF 6	Part of Actuarial contract	Mark Holder – Member Rep Anne Giles – Member Rep Virpi Raivio – Employer Rep
12 December 2017	Officers - Local Pension Board Induction covered: ○ Brief overview of the havering Pension fund ○ How the scheme is funded ○ Governance Structure ○ Key parties in the Fund	Central Library	KSF 1,2,4,5 & 6	Officer Time	Ann Giles (TBC) Virpi Raivio (TBC)

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APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
	○ Investment Monitoring ○ Strategy documents ○ Valuation LPB reporting requirements				
26 February 2018	CIPFA and Barnett Waddingham LGPS Local Pension Board Members Spring Seminar	Cheapside House, 138 Cheapside, London EC2V 6BW	KSF 1,2a	£125	Mark Holder – Member Rep and Chair Anne Giles – Member Rep Virpi Raivio – Employer Rep
27 June 2018	CIPFA and Barnett Waddingham – Local Pension Boards three years on	Cheapside House, 138 Cheapside, London EC2V 6BW	KSF 1 & 2a	£175 x3	Mark Holder – Member Rep and Chair Anne Giles – Member Rep Virpi Raivio – Employer Rep
10th October 2018	LGPS Governance Training Fundamentals - Day 1 Legal Framework	Park Plaza Hotel, 239 Vauxhall Bridge Road, London, SW1V 1EQ.	KSF 1	£260	Mark Holder

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
30th October 2018	LGPS Governance Training Fundamentals - Day 2 LGPS Investments	Park Plaza Hotel, 239 Vauxhall Bridge Road, London, SW1V 1EQ.	KSF 3,4 and 5	£260	Mark Holder
4th December 2018	LGPS Governance Training Fundamentals - Day 3 Duties and Responsibilities	Park Plaza Hotel, 239 Vauxhall Bridge Road, London, SW1V 1EQ.	KSF 1	£260	Mark Holder
10th December 2018	Local Pension Board Induction Training	2nd Floor, Romford Library	KSF 1	0	Denise Broom
26th June 2019	CIPFA and Barnet Waddington LGPS Local Pension Board Annual Event	2nd Floor 2 London Wall Place 123 London Wall London EC2Y 5AU	KSF 1,4 & 5	£185 plus VAT	Anne Giles – booked in April 19

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APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
11th July 2019	Currency Management Training	Town Hall	KSF 4 & 5	Hymans	No attendance Slides distributed to all 23 July 2019
25th September 2019	Introduction to the LGPS – Circulated email to Pensions by Committee and LPB Members 230419	Northern Trust Offices, Canary Wharf	KSF 1	£345 plus VAT	Denise Broom – booked in March 19
18th October 2019	Ruffer – Conference 2019 Responsible Investments	The Grand Hotel, Trafalgar Square, London	KSF 4 & 5	None	Mark Holder Anne Giles
October 19	Pensions Regulator Toolkit – All Modules	Home Office	KSF 1 - 6	None	Denise Broom
12th November 2019	A Guide to the LGPS – sent via email	LBH	KSF 1 - 6	None	Mark Holder Anne Giles Denise Broom

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
13 November 2019	CIPFA Pensions Network Conference	The London Stock Exchange		None	Anne Giles
10 December 2019	Hymans Valuation 2019 Training	LBH Offices	KSF 6	TBC	None
3rd February 2020	LPB Induction	LBH Offices	KSF 1,2,4,5 & 6	None	Andrew Frater
20 February 2020	LGPS LPB Members and Officers	Barnett Waddington Offices	KSF 1	£135 plus VAT	Andrew Frater
24 June 2020	LPB Members	Barnett Waddington Seminar - Webinar	KSF 1	£195 plus VAT	Anne Giles
Module Completion Date AG – 18/05/20	Pensions Regulator Public Service Toolkit:	online	KSF 1		Mark Holder – Member Rep - 09/05/18 Anne Giles - Member Rep 18/05/20

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
DB – 25/10/19 AF – 14/05/20 MH – 09/05/18	• Conflicts of interest				
	• Managing Risks and internal controls	online	KSF1		Mark Holder – Member Rep - 09/05/18 Ann Giles – Member Rep - 18/05/20
	• Maintaining accurate member data	online	KSF1		Mark Holder – Member Rep - 09/05/18 Ann Giles – Member Rep – 18/05/20
	• Maintaining member contributions	online	KSF2		Mark Holder – Member Rep - 09/05/18 Ann Giles – Member Rep – 18/05/20
	• Providing information to members and others	online	KSF2		Mark Holder – Member Rep - 09/05/18

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
	• Resolving internal disputes	online	KSF2		Mark Holder – Member Rep - 09/05/18
	• Reporting Breaches of Law	online	KSF1		Mark Holder – Member Rep - 09/05/18 Anne Giles – Member Rep -18/05/20
	Pensions regulator Trustee Toolkit • Introducing Pension Schemes	online	KSF1		Andrew Frater – Employer Rep – 14/05/20 Denise Broom – Employer Rep – 25/10/19
	• The Trustees Role	online	KSF1		Andrew Frater – Employer Rep - 14/05/20 Denise Broom – Employer Rep – 25/10/19
	• Running a Scheme	online	KSF 1 - 6		Andrew Frater – Employer Rep – 14/05/20 Denise Broom – Employer Rep –

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
					25/10/19
	• Pensions Law	online	KSF1		Andrew Frater – Employer Rep - 14/05/20 Denise Broom – Employer Rep - 25/10/19
	• An Introduction to Investment	online	KSF5		Denise Broom – Employer Rep - 25/10/19
	• How a Defined Benefit Scheme Work	online	KSF5		Denise Broom – Employer Rep - 25/10/19
	• Funding your Defined Benefit Scheme	online	KSF5		Denise Broom – Employer Rep- 25/10/19
	• Investment in a Defined Benefit Scheme	online	KSF5		Denise Broom – Employer Rep - 25/10/19
	• Defined Benefit recovery plans, contributions and funding principles	online	KSF5		Denise Broom – Employer Rep – 25/10/19

APPENDIX 1 - LOCAL PENSION BOARD MEMBER TRAINING

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PENSIONS COMMITTEE 12 January 2021

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED SEPT 2020**
CLT Lead:	**Jane West**
Report Author and contact details:	***Chrissie Sampson/Debbie Ford Pension Fund Accountant (Finance)/Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	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 SEPT 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 September 2020**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund grew in value by 2.74% over this quarter after the college merger transfer is taken in account. The Fund is now overachieving both its 12 month tactical and strategic benchmark.

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:

London CIV
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 presentation from the London CIV for the Multi Asset, UK Equities funds and Absolute Return fund on the LCIV platform (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 and suggestions if this helps members gain a better understanding of the reports.

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.

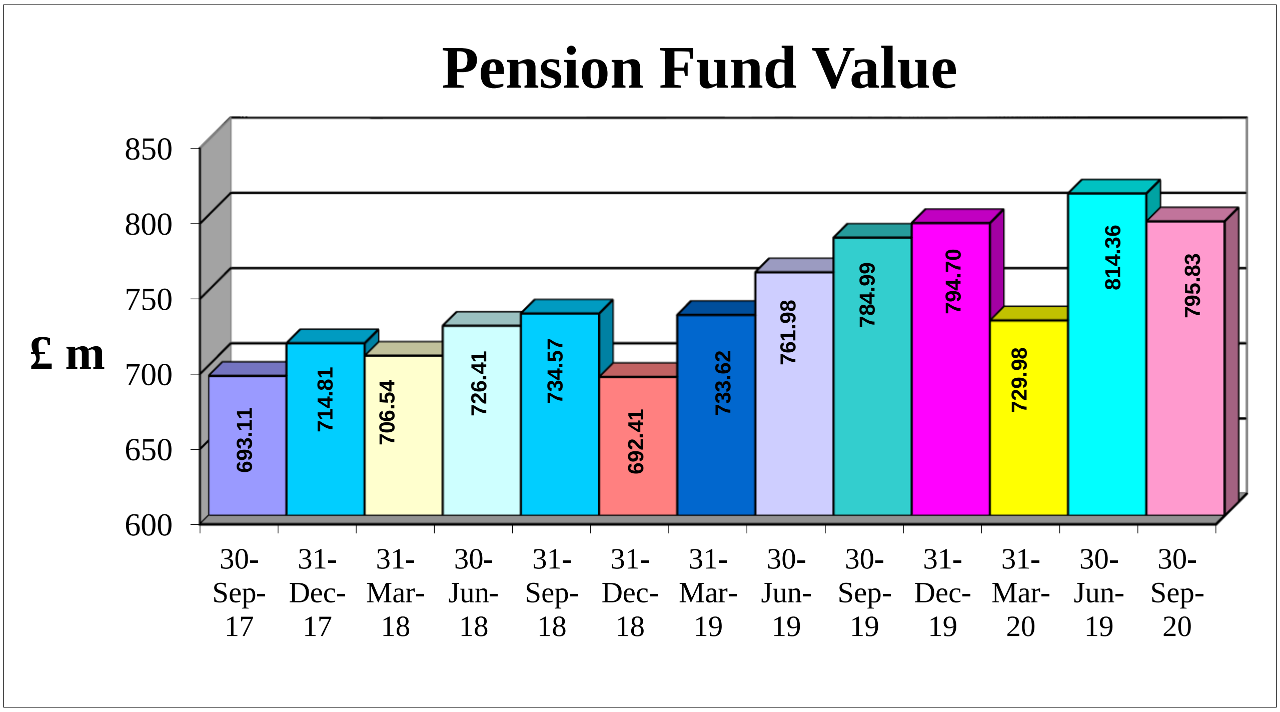
5. PERFORMANCE

a. Based on information supplied by our performance measurers, Northern Trust, the total combined fund value at the close of business on 30 September 2020 was **£795.83m.** This compares with a Fund value of £814.36m at the 30 June 2020; a **decrease of £-18.53m, (-2.98%)**. Movement in the Fund value is attributable to a decrease in assets of £-3.35m and a decrease in cash of -£15.18m. Internally managed cash level stands at **£9.12m** of which an analysis follows in this report. It should be noted that in this quarter the Fund disinvested £25.5m assets and £15.0m cash for the settlement of the college merger. When taking this into account the Fund did much better than the previous figures suggest, making an increase of £22m (2.74%) in this quarter – see table below.

	£'000s	**%**
FUND VALUE JUNE 20	**814.36**	
MINUS DISINVESTMENT COLLEGE MERGER-JULY 20	-40.5	
	773.86	
FUND VALUE SEPT 20	795.83	
FUND INCREASE IN VALUE	**21.97***	**2.74***

*figures above are rounded, % increase adjusted to agree to Northern Trust performance figure

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 30.09.20	**12 Months to 30.09.20**	**3 Years to 30.09.20**	**5 years to 30.09.20**
	%	**%**	**%**	**%**
Fund	2.74	5.43	5.95	8.38
Benchmark	1.32	3.04	5.39	6.79
*Difference in return	1.42	2.39	0.55	1.59

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

	Quarter to 30.09.20	12 Months to 30.09.20	3 Years to 30.09.20	5 years to 30.09.20
	%	%	%	%
Fund	2.74	5.43	5.95	8.38
**Benchmark	-1.72	2.20	8.24	9.36
*Difference in return	4.46	3.23	-2.29	-0.98

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 **£9.115m** follows:

Table 3: Cash Analysis

CASH ANALYSIS	**2018/19 31 Mar 19**	**2019/20 31 Mar 20**	**2020/21 30 Sept 20**
	£000's	£000's	£000's
Balance B/F	**-17,658**	**-13,698**	**-23,056**
Benefits Paid	37,954	38,880	19,450
Management costs	1,490	1,107	429
Net Transfer Values	1,543	-2,789	13,766
Employee/Employer Contributions	-44,804	-47,508	-20,325
Cash from/to Managers/Other Adj.	7,925	1,154	723
Internal Interest	-148	-202	-102
Movement in Year	**3,960**	**-9,358**	**13,941**
Balance C/F	**-13,698**	**-23,056**	**-9,115**

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. Any excess cash above the £8m thresholds can be considered for reinvestment or settlement of capital calls.

c. The cash management policy includes a discretion that allows the Statutory S151 officer to exceed the target level to meet foreseeable payments i.e. such as the college transfer

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 the London CIV for the funds Multi Asset, UK Equities and Absolute Return within the LCIV platform; 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: £0.91m Churchill, £0.74m Permira and £2.03m Stafford.

b. Following the Committees decision on the 1 October 2020 to make a €20m (c. £18m) commitment to the latest vintage of the Stafford Fund (SISF IV), officers have completed the on-boarding paperwork.

c. Members received training on the merits of Multi Factor Investing from Hymans and Legal & General and Hymans will prepare recommendations for members to consider at the next meeting.

d. Officers had client performance meetings with both Private Debt managers - Churchill on the 5 November and Permira on the 10 November 2020. Both provided investment activity over the year to Q3 2020 and their fund positioning and actions taken in respect of the impact of COVID-19.

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. Business update meetings (via WebEx) - took place on 17 September 2020,16 October 2020, 19 November and 17 December - A range of topics covered included:

- Chief Investment Officer – covered current Fund offering, Fund performance, update on funds for which enhanced monitoring is in place and the pipeline for new fund launches.
- Presentation from Pensions & Investment Research Consultants (PIRC) on the 2019/20 universe performance and asset allocations.
- Discussion panel on the topic of Investing in Low Carbon Passive Equity Funds
- Overview of the Manager Selection process
- Update from the Chief Operating Officer covering:
  i. Key themes for the MTFS and Annual Budget for 2021/22.
  ii. Funding Review and Cost Benchmarking
  iii. Summary of estimated gross and net cost savings to March 2020 that was submitted to MHCLG in September 2020. Net cumulative fee savings estimated at £70m.
- The Board and the Shareholder Committee have now approved the Budget for 2021/22 and this will be presented to the General Meeting in January for formal shareholder approval
- Discussion on the topic of identifying long term risks for the fund, in particular to Asset challenges, External Challenges and Investment Challenges. A short survey was issued after the meeting which officers responded to.
- Governance review update and progress made to date.
- ESG integration into fixed income and ESG policy implementation.
- Comparison of LCIV Infrastructure, LCIV Renewables and the London Fund presented.

b. Meet the Manager - As part of their monitoring and review processes, they have hosted Meet the Manager events where they were joined by Morgan Stanley (LCIV Global Equity Core Fund), Newton (LCIV Global Equity Fund), Longview (LCIV Global Equity Focus Fund), Ruffer (Absolute Return Fund) and The London LCIV itself.

c. There was a MTFS and budget presentation and discussion event held on the 12 November and the main points from that meetings follows:
- 2020/21 budget on track
- No proposal to change the Service charge or Development Funding Charge in 2021/22. So this will stay at £25k and £85k.
- Revised fee model will move to a 70% Ad Valorem/ 30% fixed fee basis but before the revised fee model can be implemented a target AUM of £17.5bn, (excluding passive) is required. Currently at £10bn.
- Pooling progress update – based on 31 March 2020 asset values there is potentially £17.5bn yet to be pooled.
- On assets pooled with LCIV, Havering is positioned in 6th place, falls into the classification of active investors with 70+% pooled, along with 8 other boroughs.

8.2.2 Review of the LCIV Funding Model and Cost Benchmarking

a. Ernst and Young (EY) who were appointed to undertake a review of the Funding Model have recommended remaining with the existing model until there is a critical level of Assets under Management (AUM), deemed to be at 75% of LGPS assets. The target AUM is £17.5bn, currently at £10bn.

b. Work has begun with EY to formally compare cross-pool costs but support from other pools has focused concerns about the level of detail and how the data will be used.

c. Discussion with other pools confirms that LCIV has a significant smaller budget even accounting for different pool activities such as in-house management.

8.2.3 Sub Fund Updates

a. Global Equity Core Fund – launched on the 19 October 2020.

b. Renewable Energy Fund – Stage 3 (Fund Structure Operational Viability stage). Having agreed the mandate with prospective Client Funds, they have issued and received back the Request for Proposals (RFPs) from interested parties within the adviser community, to assist London CIV in the forthcoming manager selection stage for each mandate. London CIV aiming to select the first manager for Renewable Infrastructure by late December which will lead to the fund launch in Q1 2021.

c. Impact Fund (aka London Fund - a partnership arrangement with the London Pension Fund Authority (LPFA) and Local Pensions Partnership (LPP)) – Fund launched on 15 December 2020 with a £150m investment. Second close expected in April 20201. So far two

London boroughs have expressed interest in this fund. Officers have been meeting with the LCIV to discuss this fund and have officer representation on the Seed Investor Group (SIG).

d. Private Debt – Stage 3 (Fund Structure Operational Viability stage) – Having agreed the mandate with prospective Client Funds, they have issued and received back the Request for Proposals (RFPs) from interested parties within the adviser community, to assist London CIV in the forthcoming manager selection stage for each mandate. Private Debt is anticipated to be launched in Q1 2021

e. Low Carbon mandate – new mandate being considered. Feedback was gathered from a survey that was issued in October 2020, which officers completed with the help of the Fund's investment Advisor. The SIG launched on the 4 November 2020 to discuss initial thoughts. Officers will joining the SIG for future meetings to have some input in how this mandate is developed.

f. Paris Aligned Global Equity Fund – This is a Paris aligned version of the Global Equity Fund managed by Baillie Gifford that LCIV are looking to launch in March 2021. This is in addition to the Baillie Gifford Global Equity Fund that Havering already invests in. Officers will liaise with the Fund's Investment Advisor and LCIV before discussing next steps with the Committee.

8.2.4 LCIV Key Staffing updates –

a. Three new members of staff joined the London CIV team. Tim Harris appointed to the Head of Operations and Tom Smith has been appointed as Assistant Manager for Compliance and Risk. Stephanie Aymes also appointed as their third Client Relations Manager.

b. London CIV announced the appointment of two new Non-Executive Directors - Alison Talbot and Kitty Ussher - who both joined the Board on Monday 21st September. Also appointed was Michael Green as a non-executive member of the Investment Oversight Committee.

8.3 LGPS GENERAL UPDATES:

8.3.1 Public sector exit payments

a. The statutory provisions governing exit payments to public sector workers (includes local government) are in the process of reform. This includes a £95k cap being applied for the total amount payable when someone exits their employment. The amount in severance payments, any pension strain cost (paid by the employer) and notice payments in excess of three months are included in the calculation.

b. The government initially 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.

c. On 21 July 2020, HM Treasury published the Governments response to the consultation and laid the implementing exit cap regulations in Parliament. These were approved by the House of Lords on 23 September and the House of Commons on 30 September. They were officially made on the 14 October 2020 and came into effect from 4 November 2020. This is in advance of the changes to LGPS regulations proposed by MHCLG in the further reform consultation (closing date of 9 November 2020 has been extended to the 18 December 2020).

d. There is a conflict between the exit cap regulations and the LGPS regulations. The LGPS regulations still require the member to take payment of an unreduced pension, but the exit cap regulations prevent the employer from paying the full strain cost. From 4 November 2020 up to the enactment of the regulations proposed by the MHCLG there is a position of legal uncertainty. It is expected that the LGPS regulations are not likely to come into force before March 2021

e. At the time of writing this report legal advice is being sought to determine the options available for the Fund and there are a number of judicial reviews in progress.

f. Actuarial advice has been received by the Fund in the options available for calculating the strain costs in becoming fit for purpose in the £95k cap environment and these will be included in the legal advice being sought.

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. Havering responded to the consultation and we await further updates.

8.3.3 Cost Cap

a. In 2014 the LGPS reformed to become a Career Average Revalued Earning Scheme (CARE). It was understood, at this time, that the cost of funding future pension benefits would be 19.5% of an employee’s salary. As a part of the reform, and to ensure the ongoing affordability of the LGPS, the Government introduced a ‘cost cap’ mechanism. This new mechanism involves checking the cost of LGPS pension provision every four years to ensure that these costs have not materially changed. In the event that the actual cost fell within 2% of 19.5%, no changes would be made to the Scheme's design.

b. The 2016 valuation showed that it cost less than 17.5% to fund future pension benefits, and so benefit improvements were expected to be made. However, due to the high profile court case the 'McCloud Judgment' has meant that the cost of funding pension provision has changed and this caused the cost cap mechanism to be paused.

c. An announcement was made in July 2020 that the 2016 Cost Cap process will now be 'unpaused' and the cost of resolving McCloud will now be included in the assessment of scheme costs. Accordingly, the government is preparing to complete the cost control element of the 2016 valuations. By taking into account the increased value of public service pensions as a result of 'McCloud remedy', scheme cost control valuation outcomes is expected to show greater costs than otherwise would have been expected. The government will consider how best to take forward the cost control mechanism outcomes for each scheme once the detail of these is known. We await further announcements.

8.3.4 Management of employer risk regulations

a. On 26 August MHCLG published its latest partial response to the May 2019 consultation called "Changes to the local valuation cycle and management of employer risk". The accompanying amendment regulations have also been made and are due to come into force from **23 September 2020**.

b. The new regulations focus on three key areas:
   - Review of employer contributions (inter- valuation)
   - Spreading exit debts
   - Deferred Debt Agreements

c. The Funding Strategy Statement will be amended to take account of these regulation changes and this item is also on the agenda for this meeting.

8.3.5 Good Governance in the LGPS

a. After delivering the Phase 2 report last year, the Scheme Advisory Board (SAB) asked Hymans to push forward with the working group and secretariat on more detailed implementation proposals. The project team updated the SAB at the meeting on **25th August 2020**.

b. Progress over recent months has been, understandably, a bit slower, as stakeholders have focussed on responding to immediate issues relating to the COVID-19 crisis. However, The SAB has re-iterated its commitment to this work and the project team will aim to have three key deliverables completed and agreed with the working group over the next month or so.

c. The project team agreed to progress 3 key deliverables, namely:

- A report setting out implementation advice for the proposals in Phase 2.
- A sample version of what a Fund's new Governance Compliance Statement (GCS) might look like including all the information in the proposals.
- A sample independent governance review report (IGR) which should help in developing procurement proposals for the independent governance review process.

d. The timetable thereafter will depend on the capacity within MHCLG and other LGPS stakeholders to progress to implementation of the proposals and consult on formal guidance given other priorities.

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 may be interested to note that LLG (Lawyers in Local Government) and ALACE (the Association of Local Authority Chief Executives and Senior Managers) have formally launched judicial review proceedings in a bid to quash the Exit Payment Cap Regulations. These proceedings are at an early stage and therefore it is not possible to provide any further detail.

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

BACKGROUND PAPERS

None

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London Borough of Havering Pension Fund

Q3 2020 Investment Monitoring Report

Simon Jones - Partner
Mark Tighe – Investment Analyst
Meera Devlia – Investment Analyst

HYMANS ROBERTSON

Market Background

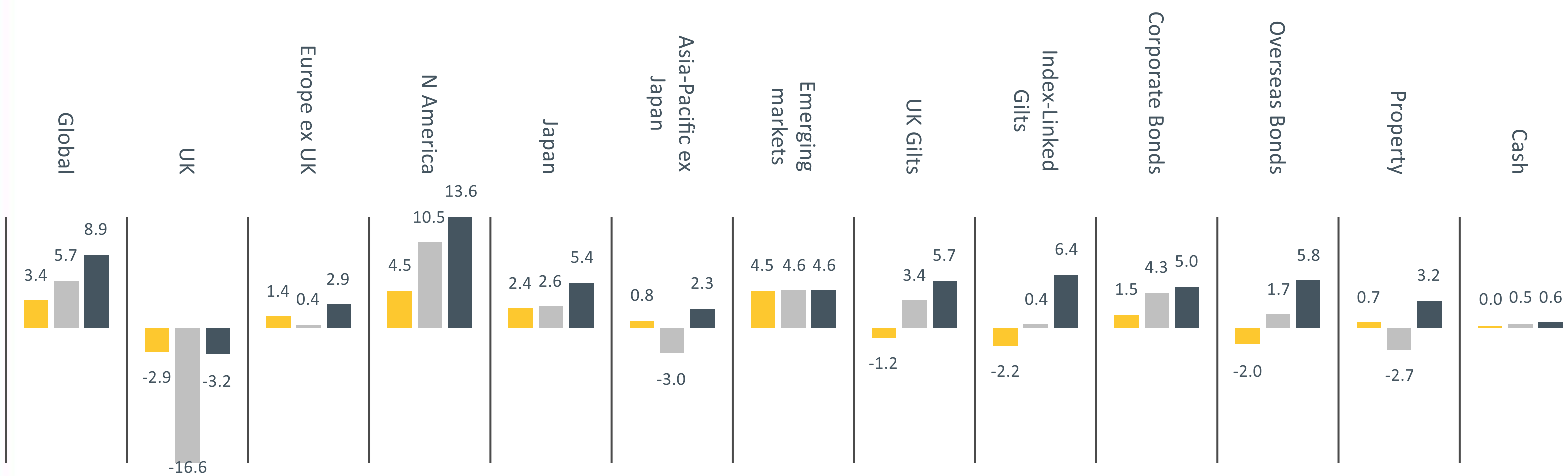
Q3 GDP data will likely reveal record-breaking growth rates for many economies, following Q2's record-breaking declines. Despite signs of a recovery, there is evidence to suggest the pace of improvement in major advanced economies slowed markedly towards the end of Q3. Monthly UK GDP releases show the pattern of growth experienced by the major advanced economies - April marked the nadir of the downturn with the economy returning to month-on month growth in May. Although above longer-term trend growth, the monthly pace of growth slowed from 6.4% in July to 2.1% in August. Purchasing Managers' Indices for both services and manufacturing in the major western economies signalled that the recovery in global activity continued in September.

Sterling partially reversed some of its losses in the first half of 2020, rising 1.7% in trade-weighted terms since the end of June, though weakness returned as trade talks faltered in September. Even allowing for September's gains, the US dollar fell 2.8% in trade-weighted terms in Q3.

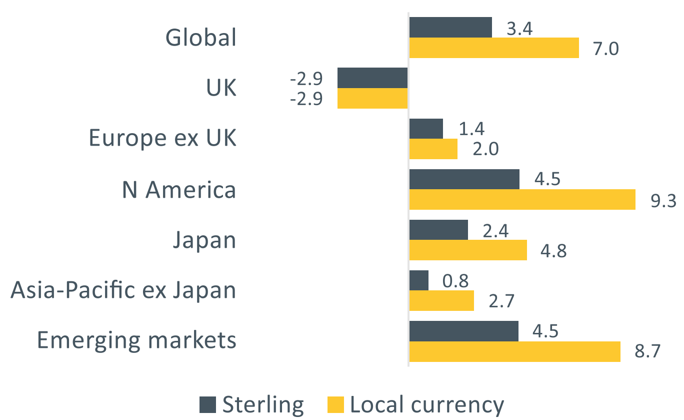
Globally, every major economy has seen its core inflation rate fall since end-2019. Having risen to 1.0% in July, headline UK CPI inflation fell to 0.2% in August, its lowest level since December 2015.

The Fed's shift to "flexible" average inflation targeting over Q3 likely means interest rate rises are even further away than previously envisaged. The Bank of England continues to send mixed messages on the potential use of negative interest rates, but an operational review is ongoing and market pricing, at least, suggests negative interest rates may be introduced in 2021.

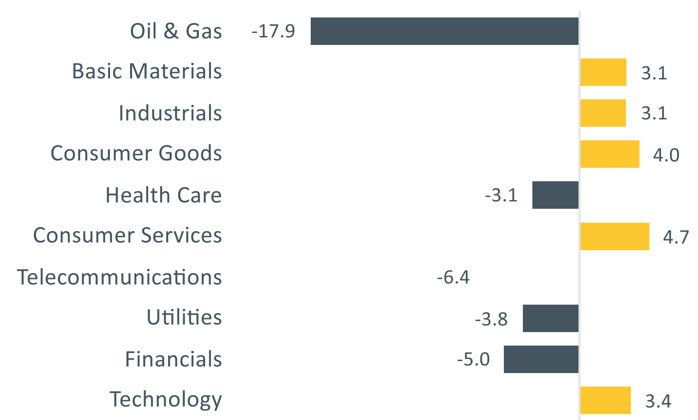
Historic returns for world markets [1]



Regional equity returns [2]



Global equity sector returns (%) [3]



[1] 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. [2] FTSE All World Indices [3] Relative to FTSE All World Indices.

Market Background

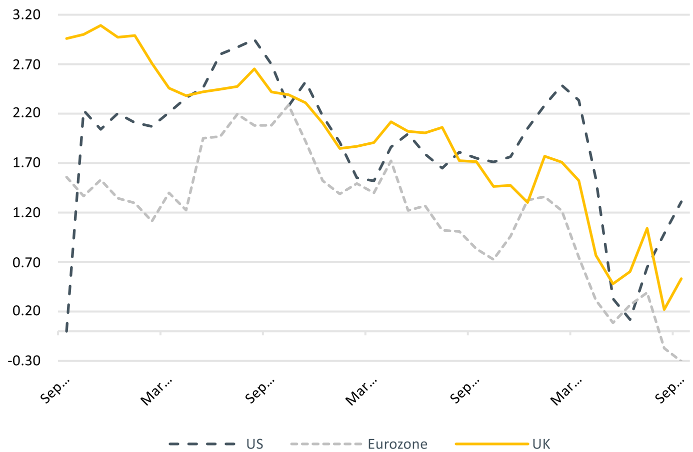
US 10-year treasury yields were little changed, ending the quarter at 0.68% p.a. Equivalent UK yields rose 0.06% p.a. to 0.23% p.a. while German bund yields drifted 0.07% p.a. lower to -0.52% p.a. Equivalent index-linked gilt yields fell, resulting in a rise in 10-year implied inflation to 3.3% p.a.

Despite rising towards the end of Q3, global investment-grade credit spreads fell from 1.6% p.a. to 1.4% p.a. and global speculative-grade spreads fell from 6.4% p.a. to 5.6% p.a. Defaults continued to rise but have been contained in the troubled US energy and retail sectors.

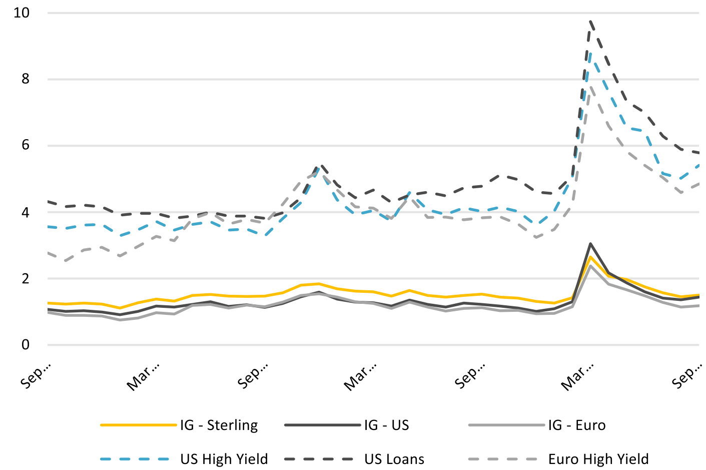
Global equity indices produced a total return of 7% in local currency terms, despite a return of volatility towards the end of Q3. Recent regional trends continued with the US outperforming and the UK underperforming. From a sector perspective technology extended its large year-to-date lead at the top of the performance rankings while oil & gas massively underperformed, cementing its place at the bottom.

The rolling 12-month performance of the MSCI UK Monthly Property Index continues to fall and is now -2.7% to the end of September. Capital values are, in aggregate, 7.8% lower over the same period. This is mainly due to an 18.6% fall in capital values in the retail sector over year, but values in other sectors have also fallen.

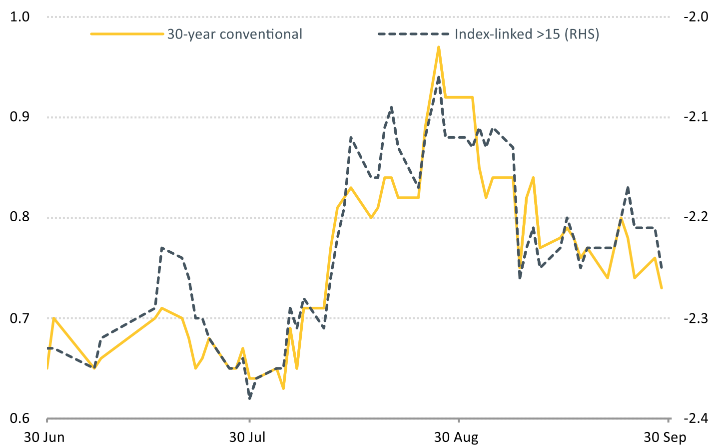
Annual CPI Inflation (% p.a.)



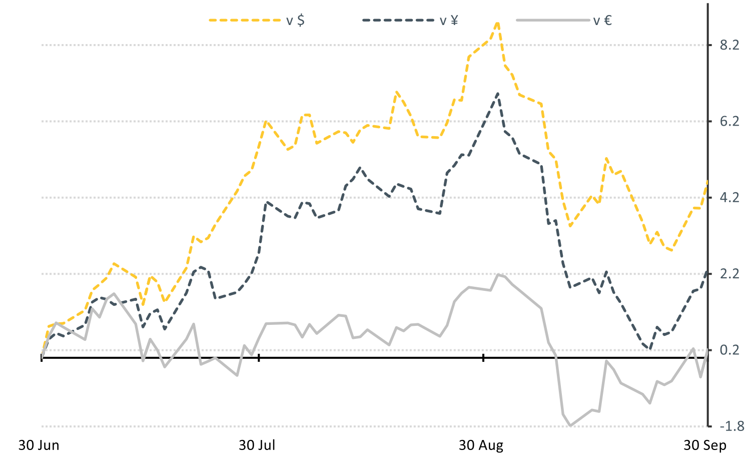
Investment and speculative grade credit spreads (% p.a.)



Gilt yields chart (% p.a.)



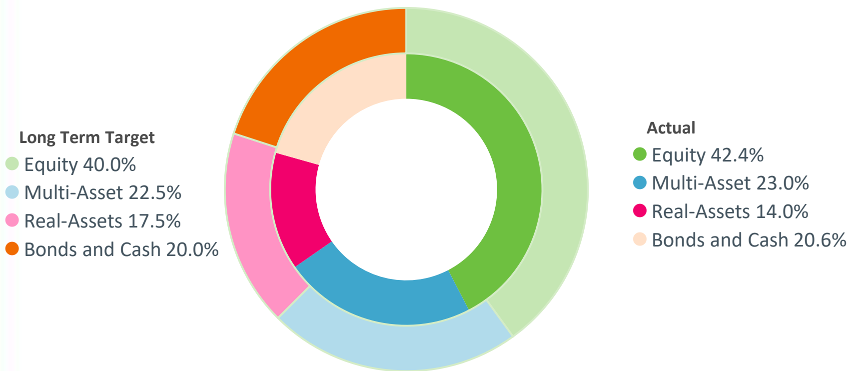
Sterling trend chart (% change)

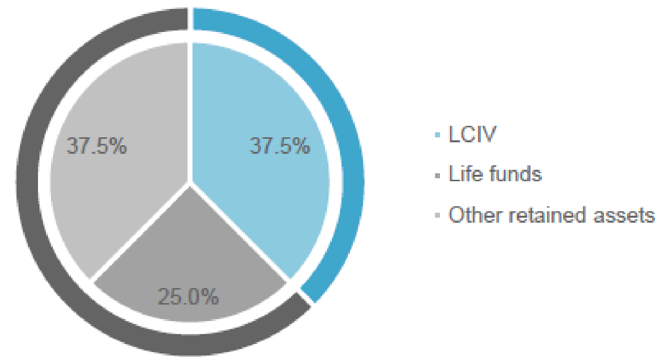


Source: Reuters

- The Fund's investment approach is implemented through the London Common Investment Vehicle ("LCIV"), and retained assets including life funds (with fee structures aligned with LCIV).
- The charts right summarise the approach agreed for the implementation of the Fund's longer-term strategy. We have indicated ongoing governance responsibilities in blue for LCIV and grey for the Committee.
- Whilst the Stafford mandate is expected to complete funding in 2020, the drawdown into the private debt mandates is expected to extend into 2021.
- The target allocation to LCIV and life funds totals 75% of Fund assets. Other retained assets will be delivered through external managers, with the position reviewed periodically.
- A review of the Fund's investment strategy was carried out by the Committee earlier in 2020.

Asset Allocation





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
Total	**100**	**-**	**37.5**	**-**	**25**	**-**	**37.5**

Current Investment Implementation

- The total value of the Fund's assets fell by c. £18.1m over the quarter to c. £795.8m as at 30 September 2020 as, despite positive asset performance, £30m was transferred out of the Fund in relation to the college merger from Havering to New City College.

- Over the quarter the Fund paid a capital call to Churchill (c.£0.9m). These were funded from existing cash and redemptions from the GMO mandate.

- There are still undrawn commitments to Churchill, Stafford and Permira.

- During the third quarter the Fund transferred £15m from cash, £6m each from Baillie Gifford DGF and Ruffer, £9.5m from RLAM corporate bonds and the total remaining value of assets with GMO to LPFA in relation to the college merger from Havering to New City College.

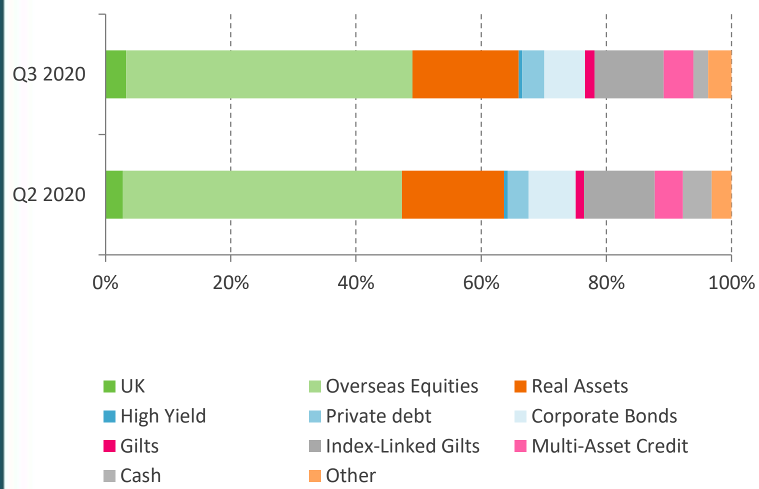
Asset Allocation

Manager		Valuation (£m) Q2 2020	Valuation (£m) Q3 2020	Actual Proportion	Benchmark	Relative
Equity		**320.8**	**337.2**	**42.4%**	**40.0%**	**2.4%**
LGIM Global Equity	LCIV aligned	61.4	63.5	8.0%	10.0%	-2.0%
LGIM Fundamental Equity	LCIV aligned	51.8	51.5	6.5%	10.0%	-3.5%
LGIM Emerging Markets	LCIV aligned	33.1	34.6	4.3%	5.0%	-0.7%
Baillie Gifford Global Equity (CIV)	LCIV	174.4	187.6	23.6%	15.0%	8.6%
Multi-Asset		**196.1**	**182.7**	**23.0%**	**22.5%**	**0.5%**
Ruffer Absolute Return (CIV)	LCIV	104.0	99.2	12.5%	12.5%	0.0%
Baillie Gifford DGF (CIV)	LCIV	86.7	83.6	10.5%	10.0%	0.5%
GMO Global Real Return	Retained	5.5	0.0	0.0%	0.0%	0.0%
Real-Assets		**112.1**	**111.8**	**14.0%**	**17.5%**	**-3.5%**
UBS Property	Retained	40.5	40.4	5.1%	6.0%	-0.9%
CBRE	Retained	28.6	27.5	3.5%	4.0%	-0.5%
JP Morgan	Retained	25.8	25.0	3.1%	4.0%	-0.9%
Stafford Capital Global Infrastructure	Retained	17.3	18.8	2.4%	3.5%	-1.1%
Bonds and Cash		**185.3**	**164.2**	**20.6%**	**20.0%**	**0.6%**
RLAM MAC	Retained	36.6	37.6	4.7%	7.5%	-2.8%
RLAM ILGs	Retained	41.8	41.0	5.2%	5.0%	0.2%
RLAM Corporate Bonds	Retained	53.3	44.5	5.6%	0.0%	5.6%
Churchill	Retained	15.6	15.4	1.9%	4.5%	-2.6%
Permira	Retained	11.6	12.5	1.6%	3.0%	-1.4%
Cash at Bank	Retained	26.2	11.1	1.4%	0.0%	1.4%
Currency Hedging P/L	Retained	0.1	2.2	0.3%	0.0%	0.3%
Total Fund		**814.4**	**795.8**	**100.0%**	**100.0%**	

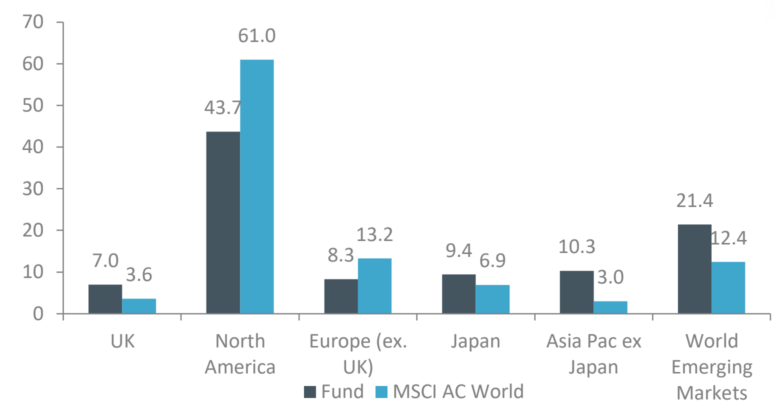
Source: Northern Trust, Investment Managers

- The chart right illustrates the underlying asset allocation of the Fund, i.e. taking account of the underlying holdings in the multi-asset funds on a 'look through' basis.
- The Fund's allocation to equities increased over the quarter to c.49% at 30 September 2020 (c.47% at 30 June 2020).
- The allocation to real assets increase to c.17% of Fund assets as at 30 September 2020 (c.16% as at 30 June 2020).
- Strategic allocations to market-cap equity and factor-based equity were both increased from 7.5% to 10.0% following the Committee's review of investment strategy. A corresponding decrease to the multi-asset allocation took place.

Asset class exposures



Regional Equity Allocation



HYMANS ROBERTSON

Source: Investment Managers, Datastream

- The table sets out the performance of each mandate against their respective benchmarks.
- The LGIM mandates tracked their respective benchmarks over the quarter, whilst the majority of the Fund's other mandates contributed positively to relative returns.
- Please note that all asset performance is in GBP terms and does not make an allowance for currency fluctuations. The total Fund performance includes the impact of the Russell currency overlay mandate.
- Please the separate slide for further detail on the Russell mandate, along with asset performance excluding the impact of currency fluctuations.

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
Growth												
LGIM Global Equity	3.4	3.4	**0.0**	5.6	5.7	**0.0**	8.9	8.9	**0.0**	11.9	11.9	**0.0**
LGIM Fundamental Equity	-0.6	-0.6	**0.1**	-10.0	-10.2	**0.2**	1.1	1.1	**0.0**	8.0	8.0	**0.0**
LGIM Emerging Markets	4.4	4.5	**-0.1**	4.4	4.6	**-0.2**	-	-	-	6.9	7.1	**-0.2**
Baillie Gifford Global Equity (CIV)	7.6	3.5	**4.0**	25.4	5.2	**19.2**	15.4	8.7	**6.1**	16.5	12.4	**3.6**
Ruffer Absolute Return (CIV)	1.2	1.0	**0.2**	6.2	1.5	**4.6**	3.4	1.0	**2.3**	4.5	0.9	**3.6**
Baillie Gifford DGF (CIV)	3.5	0.9	**2.5**	-0.9	3.9	**-4.7**	1.6	4.1	**-2.4**	3.7	4.1	**-0.4**
Income												
UBS Property	0.8	0.2	**0.6**	-1.2	-2.8	**1.6**	4.0	2.7	**1.3**	5.7	6.6	**-0.8**
CBRE	-3.9	1.7	**-5.5**	6.3	5.5	**0.7**	-	-	-	5.7	5.8	**0.0**
JP Morgan	-1.4	1.7	**-3.0**	13.5	5.5	**7.5**	-	-	-	8.6	5.8	**2.7**
Stafford Capital Global Infrastructure	-1.0	1.7	**-2.6**	10.9	5.5	**5.1**	-	-	-	8.1	6.2	**1.8**
Protection												
RLAM MAC and ILGs	0.4	0.8	**-0.4**	2.7	2.1	**0.6**	7.1	7.0	**0.2**	8.5	7.9	**0.6**
RLAM Corporate Bonds	1.3	0.9	**0.4**	-	-	-	-	-	-	11.3	12.6	**-1.1**
Churchill	-4.3	1.0	**-5.2**	4.3	4.8	**-0.5**	-	-	-	2.2	4.9	**-2.5**
Permira	1.2	1.0	**0.2**	2.1	4.8	**-2.6**	-	-	-	2.1	4.8	**-2.6**
Total	2.7	1.3	**1.4**	5.4	3.0	**2.3**	6.0	5.4	**0.5**	-	-	-

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 ad 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..

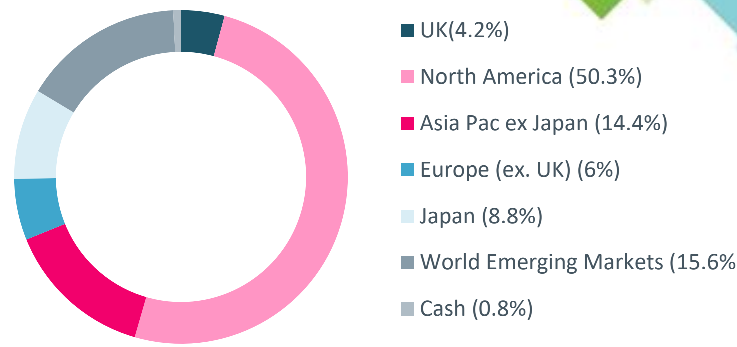
LCIV Funds

- 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.
- Following exceptionally strong performance over 2020, allocation to the Global Alpha Growth sub-fund is significantly over target weight. The Committee have agreed to trim this profit as part of the upcoming equity restructure.

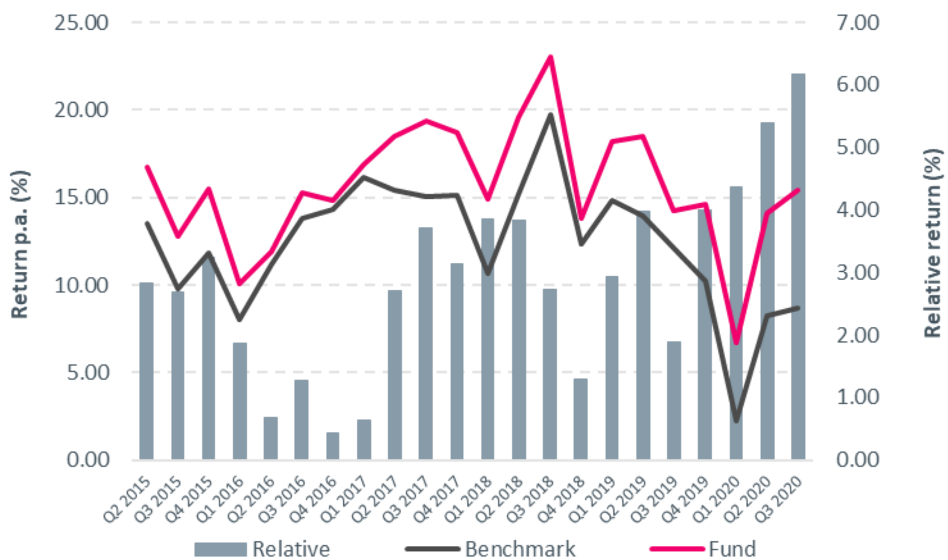
LCIV Global Alpha Growth

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Global Alpha Growth	7.6	25.4	15.4	16.5
Benchmark	3.5	5.2	8.7	12.4
Relative	4.0	19.2	6.1	3.6

Regional Allocation



Rolling 3 year return



Source: Investment Manager, LCIV, Northern Trust
Date of inception 25 April 2012

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).

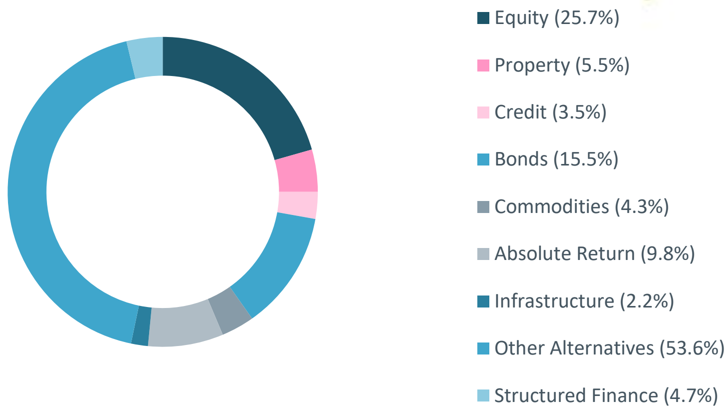
LCIV Absolute Return Fund

- 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 Diversified Growth Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Diversified Growth	3.5	-0.9	1.6	3.7
Benchmark	0.9	3.9	4.1	4.1
Relative	2.5	-4.7	-2.4	-0.4

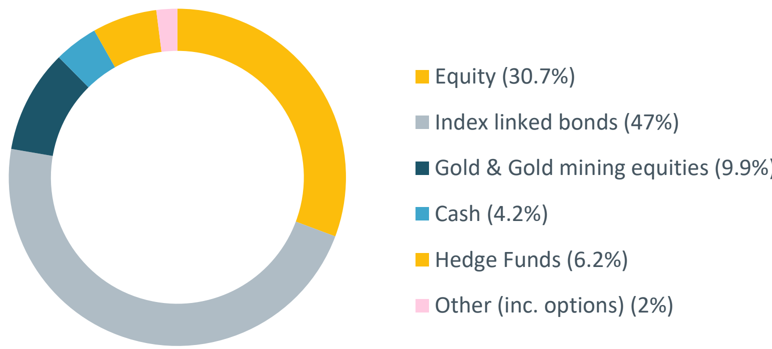
Asset Allocation



LCIV Absolute Return Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Absolute Return	1.2	6.2	3.4	4.5
Benchmark	1.0	1.5	1.0	0.9
Relative	0.1	4.6	2.3	3.6

Asset Allocation



Source: Investment Managers, LCIV, Northern Trust
Diversified Growth Fund inception date: 26/11/2013
Absolute Return Fund inception date: 13/09/2010

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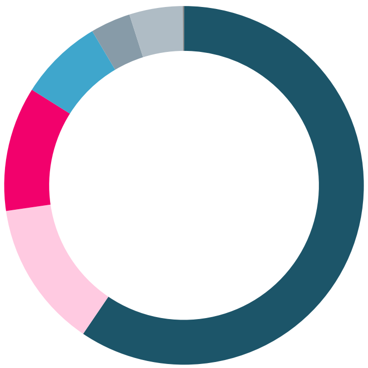
LGIM Equity Funds

- 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.
- Performance from the RAFI fund has been very poor of late as the value tilt has struggled more generally. The RAFI index was c.16% behind the global index over 12 months to 30 September.
- The Committee are considering replacing the RAFI allocation (value tilted) with a multi-factor equity fund. LGIM are due to provide training on multi-factor equity in late November 2020.

All World Equity Index

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LGIM Global Equity	3.4	5.6	8.9	11.9
Benchmark	3.4	5.7	8.9	11.9
Relative	0.0	0.0	0.0	0.0

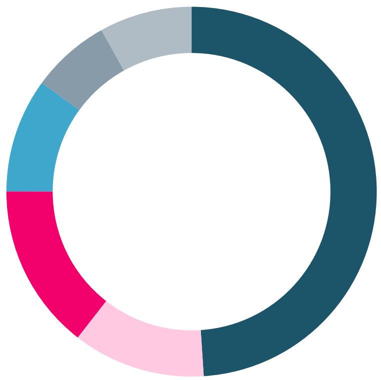
Regional Allocation



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	-0.6	-10.0	1.1	8.0
Benchmark	-0.6	-10.2	1.1	8.0
Relative	0.1	0.2	0.0	0.0

Regional Allocation



Source: Northern Trust, LGIM
All World Equity Index inception date: 23/02/2011
FTSE RAFI All World 3000 inception date: 19/08/2015

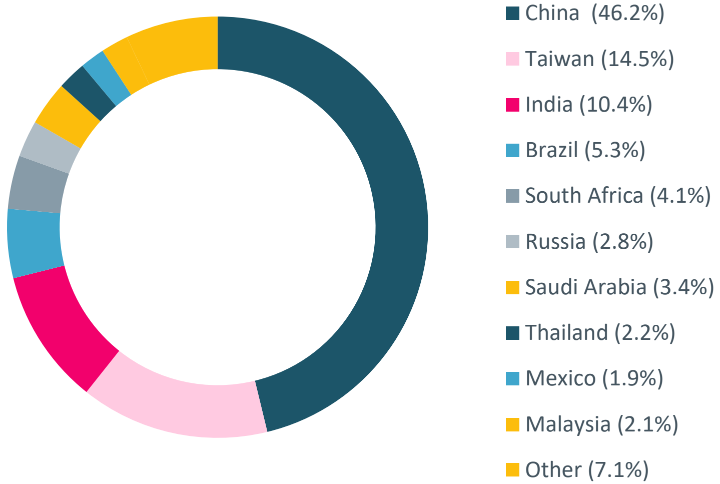
LGIM Emerging Markets

- 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	**4.4**	**4.4**	6.9
Benchmark	**4.5**	**4.6**	7.1
Relative	**-0.1**	**-0.2**	-0.2

Regional Allocation



Source: Northern Trust, LGIM
Inception date: 01/01/2019

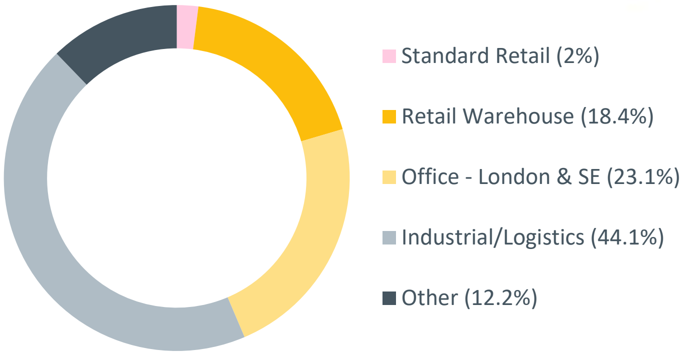
UBS Triton Property Fund

- 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.
- The UBS Triton fund has now re-opened for investors to trade in or out following the suspension earlier in the year as a result of COVID-19.
- The Triton fund continued to increase the level of rent collection over the quarter and this is moving towards more normal levels after seeing a dip following the pandemic. Rent collection over Q3 was 79% (75% over Q2). The retail sector has presented the majority of challenges with low rent collection rates.

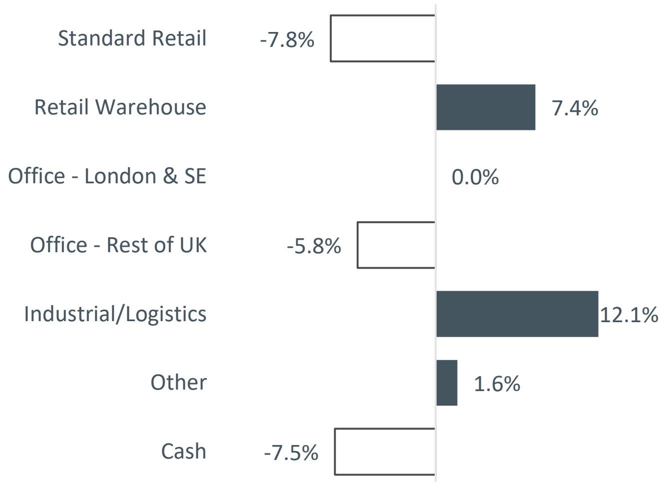
UBS Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
UBS Property	0.8	-1.2	4.0	5.7
Benchmark	0.2	-2.8	2.7	6.6
Relative	0.6	1.6	1.3	-0.8

Sector Allocation



Sector Allocation Relative to Benchmark



Source: Northern Trust, UBS
Inception date: 28/02/2005

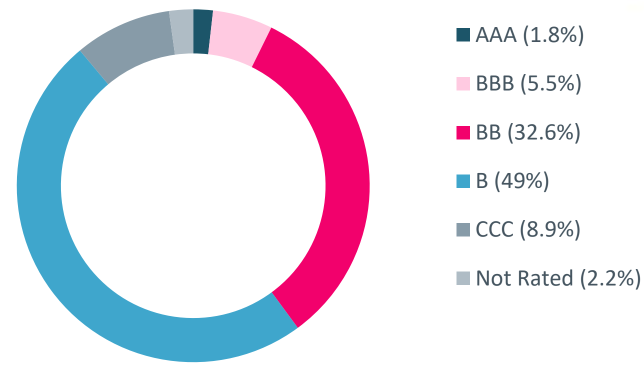
RLAM – Bond mandates

- Royal London Asset Management (RLAM) was appointed in February 2005 to manage the Fund's bond mandate.
- 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.
- The strategic allocation to corporate bonds is now 0%, with allocations to index linked gilts and multi-asset credit 5% and 7.5% respectively.
- Credit spreads tightened over the quarter which benefitted the corporate bond and MAC portfolios. Real yields fell over this period however which dampened returns from the joint MAC and ILGs portfolio.

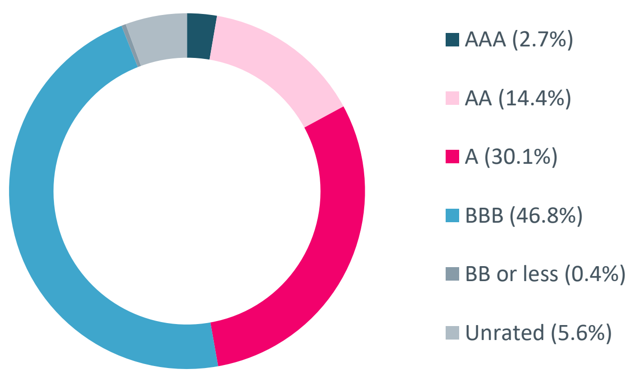
RLAM Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
RLAM MAC and ILGs	0.4	2.7	7.1	8.5
Benchmark	0.8	2.1	7.0	7.9
Relative	-0.4	0.6	0.2	0.6
RLAM Corporate Bonds	1.3	n/a	n/a	11.3
Benchmark	0.9	n/a	n/a	12.6
Relative	0.4	n/a	n/a	-1.1

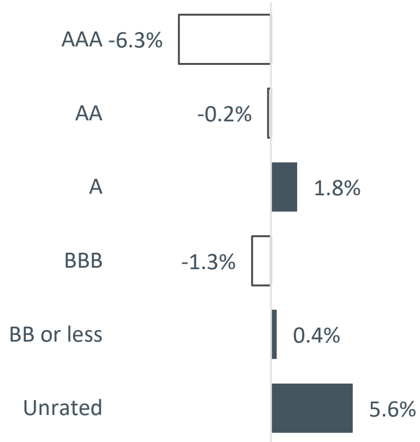
Credit Allocation (MAC)



Credit allocation (Corporate Bonds)



Credit Allocation relative to benchmark (Corporate Bonds)



MAC and ILGs Benchmark: FTSE Index Linked over 5 Year 50%, ICE BAML BB-BBB Index 25%, Credit Suisse US Leveraged Loan GBP Hedged 25%.
Corporate Bonds Benchmark: iBoxx Sterling Non-Gilt Over 10 year Index.

Source: Northern Trust, RLAM

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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.

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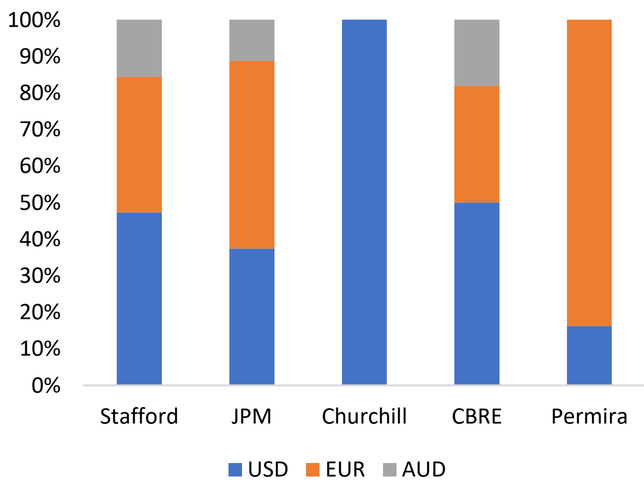
Q3 performance

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford	-1.0	0.5	-0.5	1.2	-1.7
JPM	-1.4	0.2	-1.2	1.2	-2.4
Churchill	-4.3	3.6	-0.6	1.3	-1.9
CBRE	-3.9	1.0	-2.9	1.2	-4.0
Permira	1.2	-0.6	0.6	1.3	-0.7

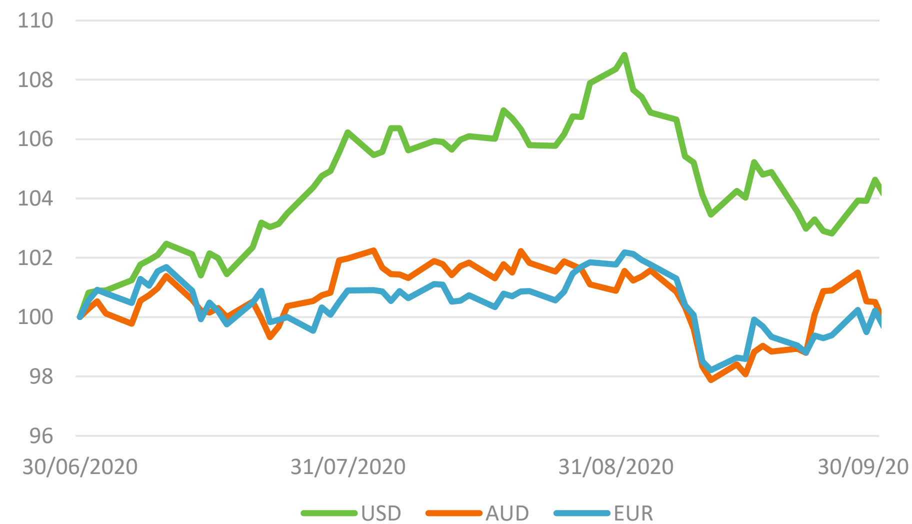
Performance since mandate inception*

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford	6.8	-3.5	3.3	2.6	0.7
JPM	11.8	-4.8	7.0	2.6	4.3
Churchill	1.2	-3.2	-2.0	2.5	-4.5
CBRE	5.4	-3.7	1.7	2.6	-0.8
Permira	0.9	-2.5	-1.7	2.5	-4.1

Hedged currency exposure as at quarter end



Sterling performance vs foreign currencies (rebased to 100 at 30 June 2020)



Source: Northern Trust, Investment managers
**Performance shown since 31 December 2019 which was the first month end after inception*

Private Markets Investments

- 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 September 2020.
- The allocations to JP Morgan and CBRE are fully drawn.
- There are outstanding commitments of approximately £40m 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 34m)	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. £0.9m (USD 1.2m)	£0.7m
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)	£0.6m
NAV at quarter end	EUR 20.7m (c. £18.8m)	USD 32.4m (c. £25.0m)	USD 35.6m (c. £27.5m)	USD 19.8m (c. £15.4m)	£12.5m
Net IRR since inception (in fund currency)	6.7% p.a. *(vs. 8-9% target)**	5.6%*	9.8%*	9.0%**	>20.4%***
Net cash yield since inception (in fund currency)	4.9% p.a. *(vs. 5% target)**	10.8%*	4.7%*	5.5%*	4.8%*
Number of holdings	19 funds, 288 underlying assets*	17 companies, 541 assets	50 investments, 2,628 properties*	76 investments	21 investments

**as at 30/06/2020 (latest available) **refers to the IRR of realised investments in the portfolio*
****figure inflated due to early stage of fund*
Source: Investment Managers

Asset class	Market Summary
Equities	• Global equity markets continued their momentum from Q2 through Q3, boosted by improving investor sentiment as rapid growth was realised following the easing in lockdowns in major economies. • While data has improved and analysts' earnings forecasts have stabilised, much uncertainty remains over the recovery and the longer-term trajectory of corporate earnings, particularly in light of the recent return of restrictions in many countries. • Valuations are highly disparate by region and sector, but when viewed in aggregate are considered a little stretched and may not be fully reflective of the current downside risks to the outlook.
Investment grade credit	• Spreads have moved in-line with long-term median levels amid ongoing support from central banks and a recovery in market sentiment. • The less sensitive nature of the investment-grade credit market to the fundamental backdrop is being reflected in spreads. • Sterling investment grade spreads have fallen below long-term median levels and the premium relative to equivalent global credit is low relative to history. • The structural protection inherent in ABS and high stress resilience does offer some additional protection relative to unsecured corporate markets where spreads have compressed further.
Liquid Sub-investment grade debt	• Recent spreads tightening means that speculative grade spreads are just above long-term median levels. • While expectations for the peak default rate have improved since the end of Q1, reflecting an improvement in financial conditions resulting from significant policy stimulus and a recovery in market sentiment, the outlook for earnings and defaults has still deteriorated significantly since the start of the year.
Private Lending	• Though the fundamental backdrop has deteriorated since the beginning of 2020 and remains uncertain, senior secured corporate lending offers the opportunity to originate new debt with better terms and potentially more attractive fundamentals versus outstanding debt in the public markets. • The illiquidity premium we would typically expect remains slightly compressed given recent weakness in the public markets. • More affected outstanding debt in public and private markets may create opportunities for new stressed/distressed and special situations financing strategies.
Core UK property	• While there is greater certainty around the accuracy of valuation data and some moderation in the stress facing the UK commercial property market, weak fundamentals demonstrate further downside risk over the coming months.
Long Lease Property	• On an absolute basis, valuations appear less attractive than the wider property market, but they are supported by stronger fundamental and technical drivers.
Conventional gilts	• Gilt yields remain near record lows amid slumping forecasts for growth and inflation and ultra-accommodative monetary policy. • Yields may remain subdued for some time as major central banks maintain QE programs to provide liquidity to the global financial system, potentially pushing the normalisation of interest rates beyond the horizon of our medium-term views.
Index-linked gilts	• Implied inflation is no longer cheap versus forecast and target inflation. • The ongoing consultation in to RPI as an inflation measure remains a lingering upside risk for real yields. • Forecasts for UK growth and inflation in 2020 provide fundamental support for gilt markets.

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.

Source: Hymans Robertson

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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.

Geometric v Arithmetic Performance

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

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

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance - Benchmark\ Performance$$

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.

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of the Local Government Act 1972.

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