



# Haverling

LONDON BOROUGH

## PENSIONS COMMITTEE AGENDA

**7.00 pm**

**Tuesday  
8 November 2022**

**Town Hall, Main Road,  
Romford**

Members 7: Quorum 3

**COUNCILLORS:**

**Conservative Group  
(3)**

Robert Benham  
Dilip Patel  
Viddy Persaud

**Haverling Residents' Group  
(2)**

Julie Wilkes  
Philip Ruck (Vice-Chair)

**Labour Group  
(2)**

Mandy Anderson (Chairman)  
Matthew Stanton

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**Trade Union Observers  
Derek Scott**

**(No Voting Rights) (1)**

**Admitted/Scheduled Bodies  
Representative**

**(Voting Rights) (1)**

**For information about the meeting please contact:  
Christine Elsasser 01708 433675  
christine.elsasser@onesource.co.uk**

***Under the Committee Procedure Rules within the Council's Constitution the Chairman of the meeting may exercise the powers conferred upon the Mayor in relation to the conduct of full Council meetings. As such, should any member of the public interrupt proceedings, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room and may adjourn the meeting while this takes place.***

***Excessive noise and talking should also be kept to a minimum whilst the meeting is in progress in order that the scheduled business may proceed as planned.***

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

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

Reporting means:-

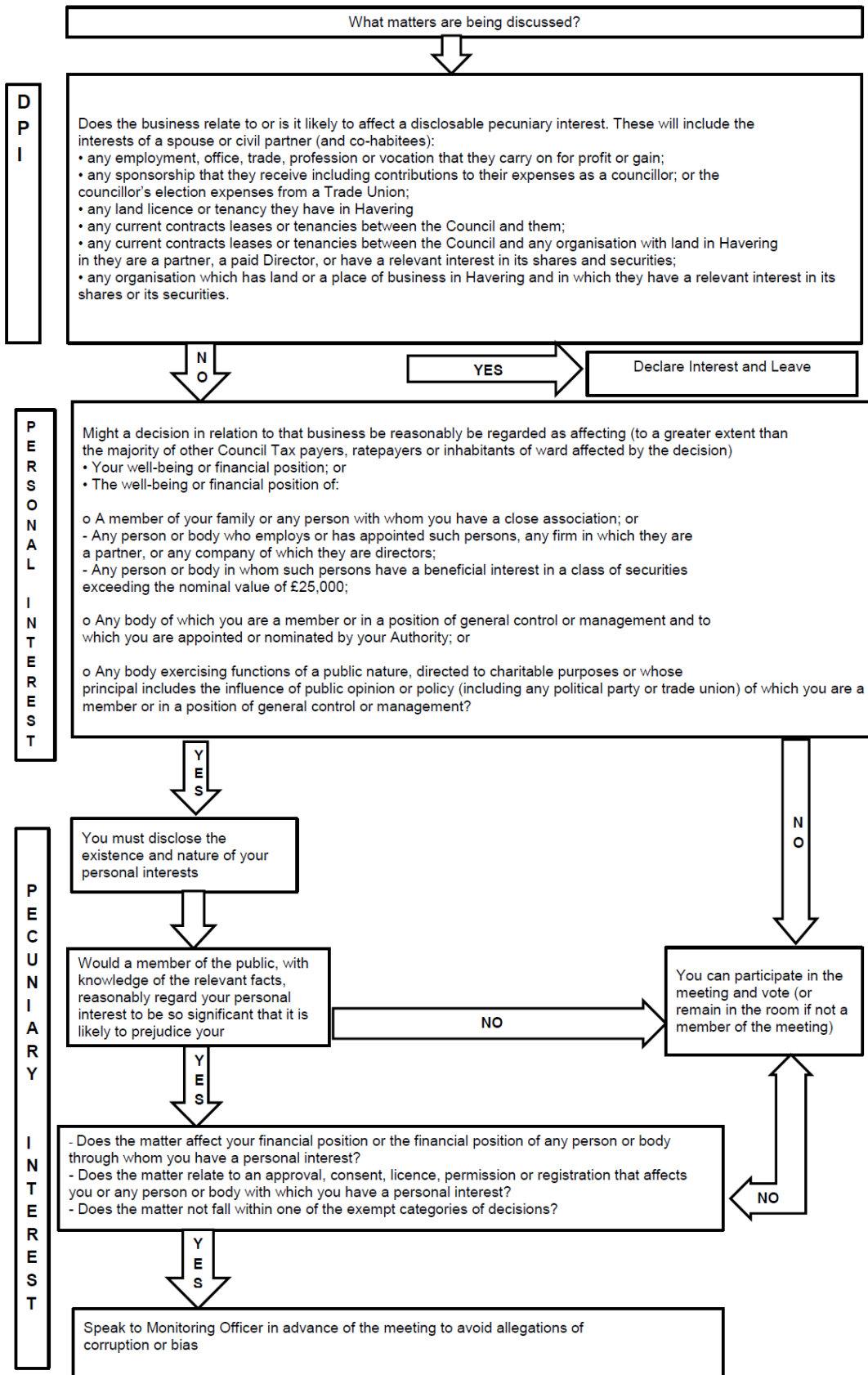
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing,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

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

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

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

**DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF**



## AGENDA ITEMS

### 1 CHAIRMAN'S ANNOUNCEMENTS

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

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

(if any) - receive

### 3 DISCLOSURE OF INTERESTS

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

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

### 4 MINUTES OF THE MEETING 20 SEPTEMBER 2022 (Pages 1 - 2)

To approve as correct the minutes of the meeting held on 20 September 2022 and authorise the Chairman to sign them.

### 5 REVIEW OF GOVERNANCE COMPLIANCE STATEMENT (Pages 3 - 24)

Report and appendix attached.

### 6 PENSION FUND ACTUARIAL SERVICES PERFORMANCE REVIEW - 1 OCTOBER 2021 TO 30 SEPTEMBER 2022 (Pages 25 - 30)

Report attached.

### 7 PENSION FUND ANNUAL REPORT- YEAR ENDED 31 MARCH 2022 (Pages 31 - 294)

Report and appendices attached.

### 8 WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT (Pages 295 - 302)

Report attached.

### 9 FUNDING STRATEGY STATEMENT 2022 (Pages 303 - 368)

Report and appendices 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 1 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

**Zena Smith  
Democratic and Election  
Services Manager**

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**MINUTES OF A MEETING OF THE  
PENSIONS COMMITTEE  
Town Hall, Main Road, Romford  
20 September 2022 (7.05 - 8.25 pm)**

**Present:**

**COUNCILLORS**

**Conservative Group** Robert Benham and Viddy Persaud

**Havering Residents'  
Group** Julie Wilkes

**Labour Group** Mandy Anderson (Chairman) and Matthew Stanton

All decisions were taken with no votes against.

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

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

Apologies for inability to attend the meeting were received from Councillors Dilip Patel and Philip Ruck (attended via Zoom).

**252 DISCLOSURE OF INTERESTS**

There were no disclosures of interest.

**253 MINUTES OF THE MEETING 26 JULY 2022**

The minutes from 26 July 2022 were agreed as a correct record.

**254 CLIMATE RISK PLAN PROGRESS REPORT**

The Committee were presented with a report that set out the progress made in developing the Fund's Plan for addressing climate risk within the Fund's investment portfolio.

Hymans joined the meeting and discussed the progress made so far in assessing the Funds current position against a series of climate related metrics as at 31 March 2022. The aim was to set a baseline position for monitoring and addressing the ongoing risk reporting requirement.

The Committee **considered and agreed** the next steps in developing the Fund's plans for addressing climate risk as set out in Hymans Report in Appendix A.

255 **PERFORMANCE MONITORING REPORT QUARTER ENDING JUNE 2022**

The Committee were provided with an overview of how the fund's investments were performing, how the individual Investment Managers were also performing against their set targets and any relevant Local Government Pension Scheme (LGPS) updates for the quarter ending **30 June 2022**.

It was explained that significant events had occurred after production of the report would be addressed verbally at the meeting and that the Fund had reduced in value by **5.98%** over this quarter, it underperformed the tactical benchmark by -2.43% but outperformed the strategic benchmark by 10.98%.

The general position of the Fund was considered plus other matters including any current issues as advised by Hymans whereby they discussed the fund's performance and answered questions from Members.

The Committee **agreed** the recommendations.

256 **MINUTES OF THE LOCAL PENSION BOARD**

The Committee noted the Local Pension Board minutes.

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**Chairman**



## PENSIONS COMMITTEE

8 November 2022

**Subject Heading:**

**REVIEW OF GOVERNANCE  
COMPLIANCE STATEMENT**

**SLT Lead:**

**Dave McNamara**

**Report Author and contact details:**

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

**Policy context:**

[Debbie.ford@onesource.co.uk](mailto:Debbie.ford@onesource.co.uk)  
Regulation 55(2) of the LGPS Regulations  
2013 requires an administrative authority  
to keep this document under review  
No financial implications

**Financial summary:**

**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 London Borough of Havering, as an administering authority, has a duty to keep the Governance Compliance Statement under review and make revisions as appropriate. It also must publish a report outlining the extent of compliance against a set of best practice principles.

The Governance Compliance Statement and the extent of compliance to guidance is set out in **Appendix A**.

**RECOMMENDATIONS**

That the committee:

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

**REPORT DETAIL**

**1. Background**

**1.1 Local Government Pension Scheme (LGPS) Regulations 2013 – Regulation 55**

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

- 1) (a) Whether the authority delegates its functions to a committee or an officer of the authority;
- (b) If the authority does so –
  - (i) the terms, structure and operational procedures of the delegation,
  - (ii) the frequency of any committee meetings,
  - (iii) whether such a committee includes representatives of scheme employers or members, and if so, whether those representatives have voting rights
- (c) the extent to which a delegation, or in the absence of a delegation, complies with guidance given by the Secretary of State, and if it does not comply, the reasons for not complying; and
- (d) details of the terms, structure and operational procedures relating to the establishment of a Local Pension Board.
- 2) An administering authority has a duty to keep the Governance Compliance Statement under review and make revisions as appropriate.
- 3) Before revising a statement an administering authority must consult such persons as it considers appropriate, following a material change.
- 4) The administering authority must publish its statement and any revised statement.

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

106 (1) Each administering authority shall no later than 1st April 2015 establish a pension board (“a local pension board”) responsible for assisting it—

(a) to secure compliance with:

(i) these Regulations,

(ii) any other legislation relating to the governance and administration of the Scheme and any connected scheme (a), and

(iii) any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme; and

(b) to ensure the effective and efficient governance and administration of the Scheme and any connected scheme

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

**2. Governance Compliance Statement (Appendix A)**

2.1 The Governance Compliance Statement as set out in **Appendix A** has been prepared in line with the best practice principles published by then Department of Communities and Local Government (DCLG) in 2008, now known as Department of Levelling up, Housing and Communities (DLUHC). Guidance includes a compliance table, which shows the extent to which the pension fund is compliant against best practice standards and where it does not, include the reasons for non-compliance. This statement also incorporates the Governance arrangements in respect of the Local Pension Board.

2.2 In line with regulations, before revising this statement an administering authority must consult such persons as it considers appropriate, following a material change. In this instance no consultation was carried out as the amendments made to the Compliance Statement reflected the change in the Pensions Committee and Local Pension Board (LPB) membership. In this instance it was considered that there were no persons appropriate to consult.

**3. Key points for the committee to consider:**

3.1 Changes made to membership

- i. **Appendix A, Section 2 Membership and Representation, 2.1 Pension Committee** - Changes reflect amendments made to new committee members following the May 2022 Local Borough elections.
- ii. **Appendix A, Section 2 Membership and Representation Other changes 2.2 Local Pension Board** – Changes reflect amendments in membership following a review of the LPB Terms of Reference in October 2021. These were updated to reflect an increase from two to three employer representatives and an increase from two to three scheme member representatives, plus the addition of an independent Chair.

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

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

3.3 The compliance statement will be amended if necessary after the committee meeting and will be published on the Council's website. This updated version will also be included in the 2021/22 Pension Fund Annual Report.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

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

The Scheme Advisory Board (SAB) commissioned Hymans Robertson to review LGPS governance structures and practices in 2019 and later accepted their

proposals in the 'Good Governance' report. In February 2021 the SAB made recommendations and submitted an action plan to DLUCH to implement the recommendations in the report.

The progress of this 'Good Governance' project has been reported to the Committee on a number of occasions and we are still awaiting consultation to be issued. Officers will continue to update the Committee on developments. Following the consultation, it is expected that new legislation and guidance will follow.

One of the 'Good Governance' recommendations is that the new governance compliance statement incorporates existing requirements alongside any additional ones arising from the review. It is therefore important that this statement is maintained and kept up to date.

Another 'Good Governance' recommendation is that each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. This will address the current non-compliance as mentioned above in paragraph 3.2.

There is a risk that any changes required to meet the new recommended governance structures and practices may impact the Pension Fund budget.

**Legal implications and risks:**

The relevant legislation is set out in the main report.

The departures from guidance have been explained and are set out at paragraph 3.2 and therefore there is minimal legal risk in leaving the statement intact in that respect, although it is open to the Pensions Committee to suggest any changes if they think this is appropriate.

**Human Resources implications and risks:**

None arise from this report.

**Equalities implications and risks:**

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

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

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

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

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



## **PENSION FUND**

# **GOVERNANCE COMPLIANCE STATEMENT**

# LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

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# LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

## 1. STRUCTURE AND ROLE OF MEMBERS

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

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

### 1.1 Role of Pensions Committee

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

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

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

### 1.2 Role of Local Pension Board (the Board)

The functions of this board are as follows:

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

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

- Such other matters as the scheme regulations may specify.

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

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.

The full version of the Board's Terms of reference can be found on the Council's website: [Local Pension Board terms of reference](#)

### 2. MEMBERSHIP AND REPRESENTATION

#### 2.1 Pensions Committee

Since May 2022, the membership of the Pensions Committee reflects the political balance of the Council and consists of seven councillors as listed below:

<b>Conservative Group (3)</b>	<b>Havering Resident's Group (2)</b>	<b>Labour Group (2)</b>
Robert Benham Dilap Patel Viddy Persaud	Julie Wilkes Philip Ruck (vice- chair)	Mandy Anderson (Chair) Matthew Stanton

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

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

Representatives are shown below:

<b>Admitted/Scheduled bodies representatives</b>	<b>Trade Union Observers (2)</b>
Vacant	Derek Scott (UNISON)
-	Vacant

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

Longevity in membership of the Committee is encouraged in order to ensure that expertise is maintained within. The Council recommends that the membership of the Pension Committee remain static for the full term of elected office in order that members are fully trained, unless exceptional circumstances require a change. Furthermore, substitute members are expected to have also been trained.

The Council's constitution 'rules of procedure' section was amended on the 28 March 2012 to include a stipulation that if a member does not undertake the required training within six months of appointment then that member shall not partake in the decision making of the Committee until their training has been completed.

### 2.2 Local Pension Board

The Havering Pension Board comprises of:

**Three Employer representatives** - shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. No officer or elected member of the Administering Authority who is responsible for the discharge of any function of the Administering Authority under the Regulations may serve as a member of the Board. Employer representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

**Three Scheme Member Representatives** - shall either be scheme members or have capacity to represent scheme members of the Fund. No officer or elected member of the Administering Authority who is responsible for the discharge of any function may serve as a member of the Board. Scheme member representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

**Chair** – An additional non-voting independent member shall be appointed to chair the Board. However, the Pension board is entitled to meet and conduct its business even if the role of the independent member is vacant or absent from the meeting.

Each board member appointed shall serve for a fixed four-year period which can be extended for further period (s) subject to re-nomination.

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

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

### 3. GUIDANCE AND MONITORING

#### 3.1 Pensions Committee

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

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

Investment Managers are invited to present at the Pensions Committee meeting on a rotational basis. Only one fund manager will attend each committee meeting to give greater focus to investment strategy development. Mandates that operate within the London Collective Investment Vehicle (LCIV) are now managed and monitored by them. However, if there are any specific matters of concern to the Committee relating to the manager's performance, arrangements will be made for additional presentations.

#### 3.2 Local Pension Board

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

### 4. REIMBURSEMENT

#### 4.1 Pensions Committee

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

#### 4.2 Local Pension Board

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

Reasonable travelling expenses for training will be reimbursed.

# LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

## 5. TRAINING

### 5.1 Pensions Committee

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

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

The Fund has commissioned an online learning course developed by Hymans Robertson, to make it easier for members of the Pensions Committee, Board and Officers to obtain the core knowledge required to meet the CIPFA Knowledge & Skills Framework and TPR's Code of Practice 14 requirements.

### 5.2 Local Pension Board

A joint training strategy has been developed and adopted by the Pensions Committee and the Board. Board members will comply with Scheme Managers training policy.

Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses. The Fund uses the CIPFA's Knowledge and Skills self-assessment training questionnaire for this purpose.

Training will be provided in the areas where it has been specifically requested or has been identified as required.

The Fund has commissioned an online learning course developed by Hymans Robertson, to make it easier for members of the Pensions Committee, Board and Officers to obtain the core knowledge required to meet the CIPFA Knowledge & Skills Framework and TPR's Code of Practice 14 requirements.

# LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

## 6. MEETINGS

### 6.1 Pensions Committee

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

### 6.2 The Local Pension Board

There will be five Board meetings held per year, with one General Annual meeting. Board members should endeavour to attend all Board meetings during the year and is required to attend at least 3 meetings each year, one of which must be the Annual meeting. Two members constitute quorum providing that there is present at least one member from both the Employer and Scheme Member Groups. In the absence of the chair, at any meeting, the members attending can appoint a deputy for that meeting. Advisors and officers do not count towards the quorum. No substitutes are permitted.

## 7. SCOPE

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

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

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

- The Investment Strategy Statement includes procedures to undertake a risk management review, and ensures terms of reference of delegations cover all key responsibilities.

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

- The Funding Strategy Statement identifies the measures in place to control the key risks identified as financial (including investment risk), demographic, regulatory and governance.
- The Risk Register identifies the key risks that the Pension Fund may face and the measures that can and have been put in place to mitigate those risks
- The Pension Committee periodically sets out a Business Plan for the year.
  - The Pension Committee comply with the Whistle Blowing requirements of the Pension Act 2004. It urges anyone to inform the correct authorities of any known wrong doings.

### 8. ACCESS AND PUBLICATION

#### 8.1 Pensions Committee

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

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

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

#### 8.2 Local Pension Board

Pension Board papers, agendas and minutes will be published on the Council's website. These may at the discretion of the Scheme manager be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified under regulations.

The meetings of the Board are held at the Town Hall during office hours or held virtually via MS Teams or Zoom.

## **LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT**

### **9. REVIEWING AND UPDATING**

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

### **10. COMPLIANCE TABLE**

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

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
Page 19	<b>A. <u>Structure</u></b>  a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	<b>Full compliance.</b> Duties and terms of reference are laid out in the Council's constitution (Part 3) and states that management of the pension fund assets lies with the Pensions Committee. Day to day management of the administration of benefits of the Pension Fund is delegated to the oneSource Shared Services (Director of Exchequer and Transactional Services. Select link to Havering Website to read the Council's constitution: <a href="#">Havering constitution</a>  Section 1 the Governance Compliance Statement refers.
	b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the committee.	<b>Full compliance.</b> Admitted/Scheduled bodies may appoint one representative to attend the committee meetings. The staff Trade Unions may appoint two representatives to attend and speak at meetings. The Local Pension Board includes three employer representative and three scheme member representatives. There is no secondary committee.  Section 2 of the Governance Compliance Statement refers.
	c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	No secondary committee or panel has been established.
	d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	No secondary committee or panel has been established.

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	<b>PRINCIPLE</b>	<b>HAVERING POSITION</b>
B	<p><b><u>Committee Membership and Representation</u></b></p> <p>a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> <li>i) employing authorities (including non-scheme employers, e.g. admitted bodies);</li>   <li>ii) scheme members (including deferred and pensioner scheme members),</li> <li>iii) where appropriate, independent professional observers, and</li>   <li>iv) expert advisors (on an ad-hoc basis)</li> </ul>	<p><b>i) Full compliance</b> - A position has been established for Admitted/Scheduled bodies' representative to be a member of the Pensions Committee and is currently vacant. Supplementary to the above stakeholders are consulted for their views with regard to various policies and are directed to papers and reports held on the Council's website.</p> <p><b>ii) Full compliance</b> – via trade union representation</p> <p><b>iii) Non-compliance</b> – The Pension Committee have considered this and decided that it is not appropriate to appoint an independent observer on the basis that the current monitoring arrangements are sufficient for the size of the fund.</p> <p><b>iv) Full compliance</b> – The Fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required.</p> <p>Sections 2 and 3 of the Governance Compliance Statement refers.</p>

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
Page 21	<p><b>C</b> <u><b>Selection and role of lay members</b></u></p> <p>a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p>	<p><b>Full compliance.</b> Duties and terms of reference are laid out in the 'Council's Constitution and states that management of the pension fund lies with the Pensions Committee.</p> <p>Sections 1 and 2 of the Governance Compliance Statement refer.</p>
	<p>b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<p><b>Full compliance.</b> Declarations of interest are always an agenda item at the Pension Committee meetings.</p> <p>Section 1 of the Governance Compliance Statement refers.</p>
	<p><b>D</b> <u><b>Voting</b></u></p> <p>a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</p>	<p><b>Full compliance.</b> The Governance Compliance Statement is clear about voting rights</p> <p>Section 2 of the Governance Compliance Statement refers.</p>
	<p><b>E</b> <u><b>Training/Facility time/Expenses</b></u></p> <p>a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p>	<p><b>Full compliance.</b> Member's expenses and allowances are laid out in the Council's Constitution (Part 6). Local Pension Board members will receive an allowance per scheduled meeting attended, at the same rate paid</p>

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	<b>PRINCIPLE</b>	<b>HAVERING POSITION</b>
Page 22		<p>to co-opted members' for other committees. No payment will be made for non-attendance.</p> <p>Reasonable travelling expenses for training will be reimbursed to Local Pension Board members.</p> <p>The Business Plan includes the policy on training. Sections 4 and 5 of the Governance Compliance Statement refer.</p>
	b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	<p><b>Full compliance.</b> As above.</p>
	c. That the administrating authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken	<p><b>Full compliance.</b></p> <p>As above. A joint training policy has been adopted by the Pensions Committee and the Local Pension Board and is included within the Annual Business Plan/Work of the Committee. The Business Plan is agreed by the Pensions Committee and all committee members and nominated substitutes are offered training.</p> <p>A training log is maintained which records attendance and training undertaken.</p> <p>Section 5 of the Governance Compliance Statement refers.</p>

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	<b>PRINCIPLE</b>	<b>HAVERING POSITION</b>
F	<p><b><u>Meetings (frequency/quorum)</u></b></p> <p>a. That an administering authority's main committee or committees meet at least quarterly</p>	<p><b>Full compliance.</b></p> <p>The Pension Committee meets five times a year and occasionally holds extra meetings if and when required.</p> <p>Section 6 of the Governance Compliance Statement refers.</p>
	<p>b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the committee sits.</p>	<p>No secondary committee or panel has been established.</p>
	<p>c. That an administration authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which interests of key stakeholders can be represented.</p>	<p><b>Full compliance.</b></p> <p>Membership on the Pensions Committee includes a representative to serve all Admitted/Scheduled bodies. Representatives also sit on the Local Pension Board.</p> <p>The current forums for which stakeholders interests can be represented are:</p> <ul style="list-style-type: none"> <li>• Through invitation to committee meeting</li> <li>• Written correspondence – employers are invited for comments via letters and email as part of any consultation process, including proposed policy changes. Havering is one of the partnerships working with the London Pensions Fund Authority, who have produced a website for scheme members to use. Factsheets and scheme communications are also published on this website along with contact details at Havering for members to contact with their views.</li> </ul>

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
<b>G</b>	<p><b><u>Access</u></b></p> <p>a. That subject to any rules in the Council’s constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</p>	<p><b>Full compliance.</b> Committee papers are sent to members at least seven days prior to the meeting and non confidential papers are published on the Council’s website.</p> <p>Section 8 of the Governance Compliance Statement refers.</p>
<b>H</b> Page 24	<p><b><u>Scope</u></b></p> <p>a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements</p>	<p><b>Full compliance.</b> The Committee already considers a wider range of pension issues.</p> <p>Section 7 of the Governance Compliance Statement refers.</p>
<b>I</b>	<p><b><u>Publicity</u></b></p> <p>a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.</p>	<p><b>Full compliance.</b> Governance arrangements are published on the Council’s website and comments are invited from stakeholders.</p> <p>Section 8 of the Governance Compliance Statement refers.</p>



## PENSIONS COMMITTEE

08 NOVEMBER 2022

**Subject Heading:**

**PENSION FUND ACTUARIAL SERVICES PERFORMANCE REVIEW - 1 October 2021 to 30 September 2022**

**SLT Lead:**

Dave McNamara

**Report Author and contact details:**

Debbie Ford  
Pension Fund Manager (Finance)  
01708 432569

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

**Policy context:**

A review of the performance of the services provided by the Actuary demonstrates compliance against Myners principles and contract procedure rules

**Financial summary:**

Actuarial net costs are met from the Pension Fund or from scheme employers where rechargeable

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

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

### SUMMARY

This report reviews the service and performance of the Havering Pension Fund's ("the Fund") Actuary from the 1 October 2021 – 30 September 2022.

**RECOMMENDATIONS**

That the Committee:

1. Note the views of officers on the performance of the Fund's Actuary during the period 1 October 2020 to 30 September 2021.
2. Agree to extend the contract for a further two years to the 15 July 2025

**REPORT DETAIL**

1. The Fund appointed Hymans Robertson ("Hymans") with a contract start date of the 16 July 2018 and terminates on the 15 July 2023 with an option to extend up to a further two years to 15 July 2025 if required.
2. Hymans have been the Fund's Actuaries since April 2010.
3. An annual assessment of the Fund's Actuarial Services performance is in line with Myner's Principle number 4 on performance measurement.
4. Monitoring the contract meets post contract award procedures and ensures services are being delivered in accordance to the contract.
5. Actuarial services includes but are not limited to completion of the triennial valuation exercise, Funding Strategy Statement (FSS) preparation and advice, annual accounting valuations of pensions liabilities of Fund employers (in accordance with Financial Reporting Standards (FRS) 102/ International Accounting standards (IAS)19 and 26 requirements, the provision of carrying out opening valuations for new scheme employers; closing valuations for exiting scheme employers; benefit administration advice and ad-hoc advice and guidance which takes account of their knowledge of the Fund's position and strategies.
6. The Actuary also provides advice on consultations regarding changes in legislation affecting the Local Government Pension Scheme (LGPS) and reviews guidance issued by the Department for Levelling Up, Housing & Communities (DLUHC) and the Scheme Advisory Board (SAB). Some of these changes are highly technical and the Committee rely upon the Actuary to put forward suggestions that are in the interest of the Fund. They work closely with the Government Actuary Department (GAD) to support their work under Section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations.

7. Since September 2021 the Actuary has undertaken the following:

**Valuation:**

- Preparation and attendance at pre valuation meeting in January 2022
- Cleansing of 31 March 2021 whole fund extract, including analysis of critical errors and reconciliation of employer codes
- Provision of 2022 valuation employer database and other valuation communications
- Produced Draft Funding Strategy Statement

**Employers:**

- Review of second draft consultation for the bulk transfer of Oasis to LPFA
- Review of revised Directions order for the colleges transfer to LPFA
- Provision of Pensions Information Memorandum for Waste & Street Cleansing (includes pass-through discussions and employer contribution rate)
- Annual review of employer risk to the Fund

**Accounting:**

- Produced statutory accounting disclosures - IAS19 for the London Borough of Havering and Mercury Land Holdings
- Produced IAS26 statement and actuarial statement for the Pension Fund
- Provided FRS102 reports for the academies.

**General**

- Various Client discussions and general advice
  - New Pension Committee induction to LGPS
8. Hymans has delivered a diverse range of advice and assistance to the Council over this period. Service delivery response times remain good. All relevant services required during the period 1 October 2021 – 30 September 2022 were delivered in both a timely manner and to a high quality.
9. Hymans continually provides timely briefings on changes to legislation, government consultations, and periodic LGPS updates. These are all welcomed, viewed as excellent, and give Council officers a steer on issues arising. Hymans also share Government consultations.
10. In conclusion, officers are satisfied with the service that Hymans is providing and therefore suggest that the Committee agree to extend the current contract period for a further two years to 15 July 2025.

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

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

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

Fees include actuarial work that was recharged to other employers within the Fund.

Variations in fees will be due to requests for one-off papers or specific functions, for example, Data Improvement Plan, COVID 19 impacts, Asset Liability Modelling and Employer Risk Modelling.

Summary of Fees, since commencement of contract in July 2018, can be seen in the following table:

**Table 1 - Fees**

	<b>Jul 18 to Sep 18 £</b>	<b>Oct 18 to Sep 19 £</b>	<b>Oct 19 to Sep 20 £</b>	<b>Oct 20 to Sep 21 £</b>	<b>Oct 21 to Sep 22 £</b>
Gross Costs	35,009	104,400	112,563	59,580	45,607
Recharges	27,950	60,950	48,250	28,825	9,970
<b>Net Cost</b>	<b>7,059</b>	<b>43,450</b>	<b>64,313</b>	<b>30,755</b>	<b>35,637</b>

The total net costs for the period of review (Oct 21 to Sep 22) was £35,637.

The total net costs since commencement from July 2018 until September 2022 totals £181,214. These costs are made up of charges for the core elements, as set out in a paragraph 5 above and costs are in line with expected contract costs. The non-core elements are usually one-off pieces of work driven by a requirement to address unforeseen events i.e. COVID risks, and Legislation changes. These costs have been charged in line with the hourly rate as set out in the contract.

Net costs are met from the Pension Fund.

Hymans were appointed in 2018 using the 2016 Actuarial, Benefits and Governance Consultancy Framework and one of the advantages of this was the possibility to benefit from the cumulative rebate, based on the overall value of work awarded to a supplier under the Framework.

The Fund has received rebates, as follows:

**Table 2 - Rebates**

<b>Rebate Year</b>	<b>£</b>
2019/20	4,736.99
2020/21	2,402.22
2021/22	1,186.13
<b>Total</b>	<b>8,325.34</b>

These rebates have been received and reflected in Table 1- fees above.

**Legal implications and risks:**

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

**Human Resources implications and risks:**

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

**Equalities implications and risks:**

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

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

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

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

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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## PENSIONS COMMITTEE

8 NOVEMBER 2022

**Subject Heading:**

**PENSION FUND ANNUAL REPORT-  
YEAR ENDED 31 MARCH 2022**

**SLT Lead:**

**Dave McNamara**

**Report Author and contact details:**

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

**Policy context:**

[Debbie.ford@onesource.co.uk](mailto:Debbie.ford@onesource.co.uk)  
Regulation 57 of the LGPS Pension Scheme Regulations 2013 applies from reporting period commencing 1 April 2014 and requires an administrative authority to publish an annual report

**Financial summary:**

Audit costs for the Fund's annual report are part of the overall cost of auditing the Fund's statement of accounts

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

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

### **SUMMARY**

This report includes the Pension Fund Annual Report 2021/22 which has been prepared in accordance with Regulation 57 of the Local Government Pension Scheme Regulations 2013 which applies for reporting periods beginning 1 April 2014.

**RECOMMENDATIONS**

1. The committee agree the Draft 2021/22 Pension Fund Annual Report as attached as **Appendix A**.
2. The committee agree the Pension Fund Annual Report will be published electronically.
3. That the Chair and the Statutory Section 151 officer be authorised to conclude the final version and sign so far as necessary, the annual report.

**REPORT DETAIL**

**1 Background**

1. For reporting periods beginning 1 April 2014, the statutory basis for Local Government Pension Scheme (LGPS) fund ("Fund") annual reports is covered under Regulation 57 of The Local Government Pension Scheme Regulations 2013.
2. It states that an administering authority must, in relation to each year beginning on 1<sup>st</sup> April 2014 and each subsequent year prepare a document ('the pension fund annual report').
3. The authority must publish the Fund's annual report on or before 1 December following the year end. This annual report covers the period 1 April 2021 to 31 March 2022.
4. The Regulations state that the annual report must contain the following:
  - a) Management and Financial Report
  - b) Investment Policy and Performance Report
  - c) Scheme Administration Report
  - d) Actuarial Statement
  - e) Current version of the Governance Compliance Statement
  - f) Fund Account and Net Asset Statement (including Audit opinion)
  - g) Levels of performance set out in a Pensions Administration Strategy
  - h) Current version of Funding Strategy Statement
  - i) Current version of Statement of Investment Principles (now replaced by the Investment Strategy Statement)
  - j) Current version of Communication Strategy
  - k) Any Other Material which the authority considers appropriate

5. In preparing and publishing the Fund's annual report, the authority must have regard to guidance given by the Secretary of State.
6. Authorities should use guidance as published by the Chartered Institute of Public Finance & Accountancy (CIPFA).
7. In order to meet current regulatory requirements an updated CIPFA guidance was published in March 2019.
8. The Annual report attached as **Appendix A** has been prepared in accordance with the guidance issued by CIPFA.
9. To provide the Committee with assurance that the annual report has been produced in line with CIPFA guidance the Fund has completed the CIPFA checklist, attached as **Appendix B**, which sets out a summary of the **must**, **should** and **may** disclosures that appear in the annual report.
  - **MUST** – compliance is mandatory. Any non- compliance should be clearly identified and explanation provided
  - **SHOULD** - compliance is anticipated but is discretionary.
  - **MAY** – compliance is recommended and is discretionary
10. The new edition “preparing the annual report” made available in March 2019 includes additional new data requirements and in some instances it has not been practical to compile data in the relevant formats suggested in the guidance. In the areas where it is mandatory (**MUST**) to provide the new data and this is not available, explanations are provided and shown in Appendix B.
11. The National Audit Office requires auditors to treat the LGPS fund as a separate audit engagement and requires a separate audit opinion on the pension fund accounts and the annual report. The auditor's opinion will be included in the annual report which must be published no later than **1 December 2022**.
12. At the time of writing this report the 2021/22 Pension Fund Annual Report is still subject to audit by our auditor's Ernst & Young as part of the overall audit of the Council's accounts. Therefore, in order to meet the 1 December statutory publication, the annual report will be published as unaudited. A verbal update will be provided at the meeting on progress of the audit if available.
13. The term 'publish' is given a wider meaning in that publication can be by electronic means. Once the annual report has been signed off it will be made available on the Council's website. However hard copies will be available upon request.
14. Any material changes to the draft version of the annual report be delegated to the Chair and the Statutory Section 151 officer to conclude the final version.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

Auditors are unable to finalise the audit opinion for the Administering Authority Accounts until they are satisfied that the financial statements in the Fund's Annual report are the same as those reported in the Council's statement of accounts.

At the time of writing this report, the Fund has not received an Audit Plan so no confirmation of costs or a date of when the 2021/22 audit will commence.

As an indication of costs, prior audit fee charges can be seen below:

	<b>2019/20 Fees</b>	<b>2020/21 Fees</b>
	£	£
<b>Total Fees</b>	<b>42,472</b>	<b>51,810</b>

The 2020/21 Pension Fund Accounts/Annual Report have yet to be finalised by our external auditors. The delays are not attributable to the Pension Fund but to outstanding issues awaiting resolution on the Council's Statement of Accounts.

The 2021/22 Annual Report will be published as unaudited to meet the statutory publication deadline of the 1 December 2022, this was the same arrangement made for the publication of the 2020/21 Annual Report which still remains unaudited.

Audit costs will be met from the Pension Fund and final costs will not be known until audits are finalised.

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

**Legal implications and risks:**

Committee Members have a legal responsibility for the prudent and effective stewardship of LGPS funds, and in more general terms, have a fiduciary duty in the performance of their functions. Investments or pension's committee members are often referred to as quasi-trustees. LGPS quasi-trustees are responsible for the:

- oversight of the management and resourcing of all fund activities
- ensuring the best possible outcome for the fund, employers and members
- ensuring the fund is managed in accordance with legal and regulatory requirements
- taking decisions in accordance with the standing orders of the investments or pensions committee

- acting prudently and impartially on behalf of all the beneficiaries ensuring all decisions are for the benefit of the fund contributors and beneficiaries.

Administering authorities should as a body charged with the administration of the fund conduct that administration in a fairly business-like manner with reasonable care, skill, and caution and with a due and alert regard to the interest of those contributors to the fund.

The Local Government Pension Scheme (Management and Investment of Funds) regulations 2016 provides various powers and duties to the Administering Authority to manage the pension fund, choice of Investment managers and the investment and use of fund money including investment policy and principles.

The Local Government Pension Scheme Regulations 2013 set out various duties and powers of the Administering Authority to make strategies statements and reports. This report is in keeping with such duties and powers.

**Human Resources implications and risks:**

None arise from this report.

**Equalities implications and risks:**

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

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

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

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

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



**BACKGROUND PAPERS**

None



**Haverling**  
LONDON BOROUGH

**HAVERING PENSION  
FUND  
ANNUAL  
REPORT  
MARCH**

**2022**

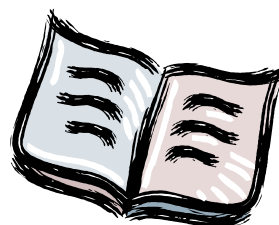
Pensions Regulator  
Registration Number  
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# Trustee Report

## Foreword to the Annual Report of the Havering Pension Fund for the year ended 31<sup>st</sup> March 2022

As a newly appointed Chair and on behalf of my newly appointed fellow members of the Pensions Committee, I am delighted to be able to introduce the 2021/22 annual report and accounts.

As today's stewards of the Local Government Pension Scheme (LGPS) and the Havering Pension Fund ("the Fund"), my colleagues on the Pensions Committee, the members of our Local Pension Board and the Fund Officers take their responsibilities to all stakeholders very seriously, including 19,912 scheme members and 56 active employers – ensuring that the scheme is locally administered effectively and efficiently on their behalf.

The Fund's net asset value ended the financial year at £920m, an increase of £46m on the prior year. This delivered an overall return of 4.6% with an annual return of 8.7% and 6.9% over the 3 and 5-year periods respectively. Although the Fund's 2021/22 performance underachieved its benchmarks, it did outperform the actuary's long term target of +3.3%.

The Fund's allocation to growth stocks have been the main engine of the Fund's overall investment growth but in 2021/22 inflation started to increase and the markets favoured value stocks instead. Performance in 2021/22 should be viewed with the backdrop of increased volatility in the markets due to the ongoing Russia-Ukraine conflict which impacted commodity and energy prices. This occurred just after the major economies started to emerge from the pandemic.

The Committee also acknowledged the long-term financial risks and opportunities presented by climate change and have significantly increased its exposure to responsible and sustainable stocks at the expense of heavy carbon emitting stocks, as evidenced by the shift to the London Collective Investment Vehicle (LCIV) Renewables Fund, the Paris aligned version of the LCIV Global Alpha Fund and climate tilted LCIV Passive Equity Progressive Paris-Aligned (PEPPA) Fund.

The Fund has continued to fund its Infrastructure and Private Debt mandates, undertook fund rebalancing to bring asset allocations closer to investment strategy targets which will give the Fund increased resilience against increased inflation and expected future market turbulence.

The Fund continues to have a close dialogue with the LCIV to progress the transition of remaining assets into its asset pool in accordance with the Department of Levelling Up, Housing and Communities (DLUHC) guidance. The value of Fund assets held under management (AUM) with LCIV were £578m (64%).

In 2022/23, the Committee will continue with its ongoing focus on mitigating climate change risk and implementing new regulation with regard to this; receive the results of the 2022 valuation, review the investment strategy making any changes where required, and deliver the work plan as set out in the 2021/22 Business Plan.

Set out in pages [61-62](#) are the issues that the Committee considered during the year. Any training and development undertaken is shown on pages [55-60](#). Also included within this report, is an overview of the activities of the Pension Administration team, found on [pages 37-43](#).

I trust that this report is both clear and informative to Fund members and for the general public. Any comments would be welcome via the contact details shown on [page 112](#).



**Cllr Mandy Anderson – Chair Pensions Committee**

## INTRODUCTION

The Annual report has been prepared in accordance with the guidance issued by The Chartered Institute of Public Finance & Accountancy (CIPFA) in August 2014 and March 2019.

The London Borough of Havering is an Administering Authority and operates a pension fund (the Fund) on behalf of its employees and pensioners under the provisions of the Local Government Pension Scheme (LGPS) Act 2013 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) regulations 2016.

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments. The Fund does not form part of the Authority's consolidated accounts and has established a separate bank account.

The performance of the Fund impacts on the cost of Council services through the cost of employer contributions. However, the performance of the Fund investments will not affect pension benefits to scheme members as benefits are guaranteed by Statutory Regulations irrespective of performance.

### Scheme Details

Since 1 April 2014 the LGPS has been a career average revalued scheme (CARE). Prior to this benefits were calculated on a final salary basis and members that were in the scheme prior to 1 April 2014 retain the link to final salary for all their service accrued up to 31 March 2014.

Members of the LGPS belong to a scheme which provides high quality pension benefits. The scheme is a defined benefit scheme and therefore members' benefits are calculated strictly in accordance with the Regulations and are not subject to changes generally affecting the fund assets.

The LGPS was contracted out of the State Second Pension until the introduction of single tier state pension on 1 April 2016. For eligible employees that had contracted out service between 1978 and 1997, any pension paid from the LGPS must be at least equal to the Guaranteed Minimum Pension (GMP) otherwise provided by State Earning Related Pension Scheme (SERPS).

The scheme is open to all local authority employees (except teachers who have their own scheme) and for employees of other eligible bodies. Generally, admitted bodies have closed membership with one employer choosing to select an open arrangement. The decision on whether membership is open or closed rests with the admitted body subject to a risk review from the Fund's Actuary and the Pensions Committee. All eligible employees who have a permanent or temporary contract of three months or more are contractually enrolled in the Fund from the first day of employment. Anyone can opt out of the scheme by completing an opt-out form available from the pension's website [www.lppapensions.co.uk](http://www.lppapensions.co.uk). The opt-out process fully complies with the Automatic Enrolment legislation.

A summary of the benefits of the LGPS are shown below. Further details of the specific conditions and detailed benefits can be obtained from the Local Pensions Partnership Administration (LPPA), our pension administrators, and the pension website [www.lppapensions.co.uk](http://www.lppapensions.co.uk)

The key features of the scheme are:

- A secure pension – benefits based on final pay and the length of service for membership prior to 1<sup>st</sup> April 2014. A CARE pension based on 1/49<sup>th</sup> of each year's actual pensionable pay for membership from 1<sup>st</sup> April 2014.
- Contribution flexibility – the ability to pay half the contributions in exchange for accruing half of the pension benefit. This is known as the 50:50 Scheme and a member accrues 1/98<sup>th</sup> of their actual pensionable pay as a pension.
- Freedom to choose when to retire - The scheme's normal pension age is linked to the state pension age. Members can find out their state pension age from [www.gov.uk/calculate-state-pension-age](http://www.gov.uk/calculate-state-pension-age)

[pension](#). However, benefits can be taken at any time between age 55 and 75.

- Tax free cash – members have the ability to exchange some of the pension for tax-free cash.
- Peace of mind – a lump sum of three times assumed pensionable pay and associated dependant's pensions for deaths in service.
- Pension entitlements – early payment of an unreduced pension if a member is made redundant or asked to leave on the grounds of efficiency from age 55 and at any age on the grounds of ill health.
- Flexible retirement – payment of pension if a member reduces hours or grade with their employer's consent from age 55.

# Overall Fund Management Report

## SCHEME MANAGEMENT AND ADVISERS

Day to day management of the Fund is delegated to the authority's statutory section 151 officer and delivered via oneSource (shared service arrangement between London Borough of Havering, Newham and Bexley (part year only)).

The Pensions and Treasury team within the oneSource Finance service ensures that members of the Committee receive advice on investment strategy and monitoring of the managers. The team also reviews management arrangements and other issues as appropriate, as well as accounting for the activities of the Fund.

From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council (LCC) who has engaged the Local Pensions Partnership (LPP) to undertake their pensions portfolio. LPP was formed in 2016 through a collaboration between LCC and the London Pensions Fund Authority (LPFA) and the group was split into LPPI (Investments) and LPPA (Administration) in June 2020. The LPPA are the main contact point for all member and employer scheme queries, employees who wish to join the scheme and for advice on procedures or complaints.

Chief Executive	Andrew Blake-Herbert
Section 151 Officer	Jane West - Dave McNamara (Interim from 03 March 2022)
Pensions Administration Management	Sarah Bryant Director of Exchequer & Transactional Services (oneSource)
Pension Fund Manager (Finance)	Debbie Ford (oneSource)
Fund Administrator	Local Pension Partnership Administration (LPPA)
Legal Advisers	London Borough of Havering Legal Services (oneSource) provide legal advice as necessary
Fund Actuary	Hymans Robertson LLP
Fund Investment Advisers	Hymans Robertson LLP
Investment Managers	Royal London Asset Management (Investment Bonds) UBS (Property) Ruffer LLP (Multi Asset) (transferred to London CIV 21 June 2016) Legal & General Investment Management GMO Global Real Return (UCITS) from January 2015 London CIV Baillie Gifford Diversified Growth Fund (from 15 February 2015) London CIV Baillie Gifford Global Alpha (from 11 April 2016) London CIV RF Absolute Return (from 21 June 2016) Stafford Capital – Real Assets Infrastructure (from June 18)

JP Morgan – Real Assets Infrastructure (from July18)  
CBRE – Real Assets Global Property (from August 19)  
Churchill Asset Management – Private Debt (from December 18)  
Permira Credit Solutions– Private Debt (from January 19)  
Russell Investments – Currency risk manager (from December 2019)

Asset Pool Company	London Collective Investment Vehicle (London CIV)
Fund Custodians	Northern Trust
Performance Measurement	Northern Trust Pensions & Investment Research Consultants Limited (PIRC)
Bankers	National Westminster Bank PLC
Auditors	Ernst and Young LLP and Internal Audit (as required)
AVC Providers	Prudential Standard Life

**Employers in the Fund are as follows:**

London Borough of Havering (includes non-teaching staff in schools and schools listed below under Designated Bodies)

**Scheduled Bodies:**

Olive Academy Trust (joined 1 September 2016)

**Secondary Schools:**

Drapers' Academy (Academy from 1 September 2010)  
Abbs Cross Academy and Arts College (Academy from 1 April 2011)  
The Brittons Academy Trust (Academy from 1 April 2011)  
Coopers' Company & Coborn School (Academy from 1 April 11)  
Hornchurch High School (Academy from 1 August 2011)  
The Champion School (Academy from 1 August 2011)  
Hall Mead School (Academy from 1 August 2011)  
Sacred Heart of Mary Girls' School (Academy from 1 August 2011)  
St Edward's Church of England School & Sixth Form (Academy from 1 August 2011)  
Emerson Park Academy (Academy from 1 September 2011)  
Redden Court School (Academy from 1 September 2011)  
The Frances Bardsley Academy for Girls (Academy from 1 July 2012)  
Bower Park Academy (Academy from 1 February 2013)  
Harris Academy Rainham (Academy from 1 November 2013)  
Marshalls Park Academy (Academy from 1 April 2017)  
Royal Liberty Academy (Academy from 1 February 2017)  
Gaynes Academy (Academy from 1 July 2018)  
Sanders Academy (Academy from 1 September 2018)  
Drapers Management Team (1 May 2019)  
*NEW:* Olive Academy MAT (joined 1 July 2020)

**Primary Schools:**

Upminster Junior Academy (Academy from 1 November 2012)  
Upminster Infant School (Academy from 1 November 2012)  
Langtons Junior Academy (Academy from 1 April 2013)  
Oasis Academy Pinewood (Academy from 1 October 2013)  
Drapers' Brookside Junior School (Academy from 1 June 2014)  
Drapers' Pyrgo Priory Primary School (Academy from 1 February 2015)  
Drapers' Maylands Primary School (Academy from 1 September 2015)  
Drapers Brookside Infants (Academy from 1 September 2016)  
Rise Park Infant School (Academy from 1 September 2014)  
Rise Park Junior School (Academy from 1 September 2014)  
Lime Academy Forest Approach Academy (Academy from 1 September 2015)  
Lime Academy Ravensbourne Academy (Academy from 1 April 2016)  
Concordia Academy (Academy from 1 September 2016)  
Benhurst Primary School (Academy from 1 October 2016)  
Scargill Infant Academy (Academy from 1 September 2017)  
Scargill Junior Academy (Academy from 1 September 2017)  
Whybridge Junior Academy (Academy from 1 September 2017)  
Harrow Lodge Academy (Academy from 1 March 2018)  
Hacton Academy (Academy from 1 September 2018)  
Dame Tipping Church of England Primary School (Academy from 1 September 2018)

**Admitted Bodies:**

Sports and Leisure Management Ltd – Fitness and Health  
Sports and Leisure Management Ltd – Charitable Trust  
Breyer Group Repairs (ceased 31 March 2022)  
Accent Catering Services (joined 1 September 2015)  
Harrison Catering (joined 1 October 2017)  
Lewis and Graves Cleaning (joined 1 August 2018 – pending legal agreement)  
Caterlink (Life Academy Trust Dame Tipping) (joined 1 September 2019– pending legal agreements)  
Caterlink (Life Academy Trust Frances Bardsley) (joined 1 September 2019 – pending legal agreements)  
May Harris (Royal Liberty) – joined 1 January 2020 – pending legal agreements)  
May Harris (Sanders Academy) – joined 13 January 2020 – ceased 30 Aug 20  
Olive Dining (joined 1 Nov 20 – pending legal agreements))  
Atalian Servest Food Co Ltd (pending legal agreements)  
Harrison Catering (Gaynes) joined 1 April 2020

**Resolution Bodies:**

Mercury Land Holdings (joined 16 Nov 2020)

**The Havering Pension Fund also has the following bodies:****Designated Bodies:****Trust Schools**

Corbets Tey Special School

**Foundation Schools:**

Sanders School  
The Mawney School

**Voluntary Aided Schools:**

St Alban's Catholic Primary  
St Edward's Church of England Voluntary Aided Primary School  
St Joseph's Catholic Primary School  
St Mary's Catholic Primary School  
St Patrick's Catholic Primary School  
St Peter's Catholic Primary School  
St Ursula's Catholic Junior School  
St Ursula's Catholic Infant School  
La Salette Catholic Primary School

## **RISK MANAGEMENT**

### **Overall**

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the potential risks to the Fund, and will take appropriate action to mitigate the impact of these on the Fund wherever possible.

Risks are identified and assessed in line with the Authority's risk management process, with risks being identified within Service Plans.

Longevity in membership of the Committee is encouraged to ensure that expertise is maintained. The Authority recommends that the membership remains static for the elected member's term of office in order that they are fully trained in matters relating to pensions, unless exceptional circumstances require a change. Elected members are governed by the administering authority's code of conduct and this includes a process for identifying and declaring conflicts of interest.

Risk is also identified and managed within the following statutory documents:

- Governance Compliance Statement,
- The Funding Strategy Statement
- The Investment Strategy Statement
- Statement of Accounts

These documents are reviewed on an on-going basis. Please refer to these documents in the appendices for more details on the risks identified and how these are currently managed.

### **Governance Risk**

The Fund uses the services of an external Actuary (Hymans Robertson) whose advice is sought in setting employer contribution rates and bond rates to mitigate the risk of the Fund not receiving the right income and financial protections for the Fund.

### **Investment Risk**

The Fund uses the services of an external Investment Adviser (Hymans Robertson) whose advice is sought on investment matters and who attends quarterly committee meetings where investment performance is reported for the Fund and for each individual fund manager.

### **Fund Managers**

As a risk management tool, assurance is sought from the fund managers with regard to their own internal controls by reviewing their audited assurance reports (AAF 01/06, SSAE16 or ISAE 3402). Any exceptions highlighted by their auditors are evaluated by officers.

Summary of assurance reports received is shown below:

	Type of Report	Period of Report	Assurance obtained	Reporting accountant
<b>Fund Manager</b>				
Legal and General	ISAE 3402	1 January 2021 - 31 December 2021	Reasonable Assurance	KPMG
London CIV	LCIV 3 <sup>rd</sup> Party Controls Oversight	As at 31 March 22		LCIV
London CIV – Baillie Gifford	Reported within the LCIV report	1 May 2021 - 30 April 22	Reasonable Assurance	PricewaterhouseCoopers
London CIV - Ruffer	Reported within the LCIV report	1 April 2021 – 31 March 2022	Reasonable Assurance	Ernst & Young
UBS	ISAE 3402	1 January 2021 – 31 December 2021	Reasonable Assurance	Ernst & Young
J P Morgan (CITCO)	SOC1 Type #2	1 October 2020 – 30 September 2021	Reasonable Assurance on Systems administrator, investor relations & custody	Ernst & Young
CBRE	AAF01/20 & ISAE 3402	1 January 2021 – 31 December 2021	Reasonable Assurance	KPMG
Churchill(US Bancorp Fund Services)	SOC1	1 October 2019 – 30 September 2020	Reasonable Assurance on system administrator	Ernst & Young
Royal London	ISAE 3402/AAF 01/06	1 October 2019 – 30 September 2020	Control Exceptions Identified - Qualified Opinion	PWC
Permira (Alter Domus)	ISAE 3402	1 October 2020 – 30 September 2021	Reasonable Assurance for fund administration, transfer agency and I.T systems	Ernst & Young
Russell Investments	SOC 1	1 <sup>st</sup> October 2019 - 30 <sup>th</sup> September 2020	Reasonable Assurance	Ernst & Young
Stafford	n/a <sup>(1)</sup>		n/a <sup>(1)</sup>	
<b>Custodian</b>				
Northern Trust	SOC 1	1 <sup>st</sup> October 20 - 30 <sup>th</sup> September 2021	Reasonable Assurance	KPMG

(1) Internal control report is not currently available as neither Stafford Capital Partners SCA SICAV-FIS nor its mandated administrator are required to have one as per the Commission de Surveillance du Secteur Financier (CSSF)/under Luxembourg Law. The CSSF is responsible for financial regulation in Luxembourg which is where the fund is based. However, the administrator has indicated that such a report is something they are planning to implement in the future.

Where Control exceptions have been identified – the fund managers demonstrate, in their report, a number of actions undertaken to address the control issues identified.

## Benefits Administration

In summary, the risks relating to administration will be around the obligations to:

- Maintain accurate records;
- Pay benefits accurately;
- Pay benefits on time as agreed with employers or under statute; and
- Provide accurate and timely information on Pensions

The main areas of risk are likely to be non-payment or late payment of members' benefits, incorrect calculation of members' benefits, breach of Data Protection or failure to comply with Disclosure of Information requirements. An area of risk that also needs to be assessed and managed is that of fraud. Participating in the National Fraud Initiative (NFI) is one of the ways in which pension fraud is successfully managed.

A growing area of risk is that of pension scams. The Pensions Regulator has issued revised guidance encourages all pension funds to sign up to their new Pledge to Combat Pension Scams. LPPA have signed the pledge and send appropriate communications to all members who request a transfer quote.

The impact of the above risks would be statutory fines, loss of reputation, adverse publicity and increased audit fees.

## Internal Audit Assurances

From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council (LCC) who have engaged the Local Pension Partnership Administration (LPPA) to undertake their pension's administration.

As responsibility for the day to day administration of the pension fund has been contracted to LCC, the Council are reliant on the provision of information to give assurances that risks are being adequately managed. In September 2021, Havering received an audit report to give assurances that services are being delivered by LPPA in compliance with the Pension Regulator Code of Practice 14 and public sector pension's legislation.

The audit was undertaken by LPPA's internal auditors Deloitte. Key business activities were reviewed and a number of exceptions were identified for which LPPA have an improvement plan in place to address.

Details on how these risks are mitigated are included in the **Risk Register** and **Business Continuity Plan**.

## Risk Register

In line with the Local Government Pension Scheme Regulations (LGPS) and good practice the London Borough of Havering as an administering authority has developed a Pension Fund Risk Register, details of which can be found in an appendix to this report.

The Risk Register was originally compiled with reference to the CIPFA publication '*Managing Risk in the LGPS (2012)*' with input from the Internal Audit, Insurance and Corporate Risk Manager, a Risk Consultant from Zurich Municipal, the Pension Fund Manager (Finance), the then Corporate and Strategic Finance Manager (Audit) and the Pensions Administration Project Manager.

A comparison of the Risk Register was then later compared to the updated CIPFA '*Managing Risk in the LGPS*' published in December 2018 to ensure consistency with the guidance.

The Risk Register identifies the key risks that the Pension Fund may face and the measures that can and have been put in place to mitigate those risks.

Seven key risks have been identified and recorded in the risk register and are summarised below:

- Inaccurate three yearly actuarial valuations – resulting in insufficient funding to meet liabilities
- Incorrect/inappropriate Investment Strategy – leading to failure to meet strategic objectives by not reducing pension deficit
- Failure of investments to perform in line with growth expectations – potential loss of money
- Failure to comply with legislative requirements – damaging the Authority’s reputation and leading to potential litigations
- Inability to manage the Pension Fund and associated services – with negative impacts upon service provision
- Failure to on board or exit employers/members – impacts on cash flow and leads to possible litigations
- Pension Fund Payment Fraud – damaging the Authority’s reputation and leading to potential financial loss

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

The Risk Register is a ‘live’ document and therefore all risks are reviewed continually to ensure that they remain relevant and that the controls are in place to manage risks where feasible. With this in mind it was agreed that from April 2019 the Risk Register will be a standing item on the Local Pensions Board (LPB) agenda for the LPB to consider and to make recommendation to the Pensions Committee for inclusion and agree to any updates.

Since the last review in January 2021 and as recommended by the LPB, officers have

- Reviewed and updated the controls & mitigations.
- Reviewed the likelihood/impact scores for each of the seven risks.
- Adopted the suggestion to include a pre control likelihood/impact score to reflect the risk score at that point, this is to better reflect that the controls/mitigations in place will reduce the likelihood/impact of the risks once the controls/mitigations in place.
- Reformatted the register to improve the reading and understanding of the register – improved alignment of the risks with the consequences and controls in place.

This updated Risk Register was agreed at the Pensions Committee meeting at its meeting on the 9 November 2021. The Full Risk Register can be found as an appendix [Risk Register](#) at the back of this report.

Risk can be classified as having two measurements that need to be assessed to determine the scale of the risk i.e.

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

There are a number of actions that have been identified to take forward that will improve the level of mitigations in place with the aim of reducing the likelihood, impact and the risk score.

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

## **Business Continuity Plan**

Services develop and maintain Business Continuity Plans, which deal with “disaster recovery” and include contingency measures. The Exchequer & Transactional Services Business Continuity Plan (BCP) which includes support services for the payment of pensions identifies critical activities whose failure would lead to an unacceptable loss of service, and sets out measures to minimise the risk and disruption to service.

LPPA provide services to a number of clients who demand and expect that well planned and tested business continuity arrangements be put in place should the need arise. All BCPs require LPPA to inform all customers whenever a specific response plan is activated.

Business continuity arrangements are regularly reviewed and all documentation was reviewed and updated in January 2020.

The overarching objectives of the BCP arrangements are to minimise the disruption to the Pension Service due to an incident that causes an interruption in the normal delivery of the service. To achieve this LPPA carry out business impact analyses, assess the likelihood and impact of failure, and use specific or generic plans to manage in the event of a critical failure. LPPA work closely with suppliers upon whom they are reliant to ensure their own business continuity processes will support the business in the event of a failure.

The Business Continuity Team comprises key staff who understands all aspects of the business, have the authority to make decisions and fully understand customers' needs and expectations.

All staff are briefed on business continuity arrangements, can be contacted at any time, and are equipped to work remotely should the need arise, at least to a level of resource which would enable to service to provide a minimum service level within 24 hours.

In response to the COVID-19 pandemic, Exchequer and Transactional Services and the wider council all initiated their BCPs successfully.

Due to the robust nature of both the LPPA and Havering BCPs, there were no disruptions to Pensions Finance activities, pension benefits continued to be made on time and there was minimal disruption for individuals when contacting Payroll or LPPA throughout the pandemic and the move to more permanent home working.

# Financial Performance

The Pensions Committee is supported by the Administering Authority's Finance and Administration services (oneSource) and the associated costs are therefore reimbursed to the Administering Authority by the Fund. The costs for these services form part of the Administrative and Investment Management expenses as reported in the Pension Fund Statement of Accounts. Estimates for the medium term on Management costs, as set out in the Business Plan, follow in this report.

**Pensions Administration** -. From 1 November 2017 the Pensions Administration is provided through a delegated arrangement and is supplied by Local Pensions Partnership Administration (LPPA) which is a joint venture between Lancashire County Council and London Pensions Fund Authority.

Pensions Administration also includes a post for the Projects and Contracts Manager who monitors the pension's administration contract and ad hoc projects.

A review of Pension Administration services was undertaken during 2021 to assess current service demands and workloads and notes the intention to increase resources. This takes into account the additional service demands following the Employer Risk Management Service transferring in-house from the 1 April 2021, which was previously administered by LPPA.

**Accountancy and Investment support** - The Pensions and Treasury team within the oneSource Finance Service supports the Pension Fund consists of an establishment of 2 full time equivalent posts (3 officers). They ensure that members of the committee receive advice on investment strategy and monitoring of the managers. The team also manage accounting for the activities of the Fund and other issues as appropriate.

A Finance transformation project undertaken during 2021 identified the need to develop an appropriate succession plan and introduce trainee level staff or rotations. Succession planning is currently ongoing.

In line with the Chartered Institute of Public Finance & Accountancy (CIPFA) LGPS Management Costs guidance, Management costs are shown split between three cost categories as follows:

## Administrative Expenses

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

	2020/21	2021/22	2021/22	2022/23	2023/24	2024/25
	Actual	Estimate	Actual	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
Administration & Processing*	580	660	674	745	755	755
Other Fees	8	10	8	10	10	10
Other Costs	13	25	27	20	20	20
<b>TOTAL</b>	<b>601</b>	<b>695</b>	<b>709</b>	<b>755</b>	<b>785</b>	<b>785</b>

Please note the following regarding the above figures:

- 2021/22 Administration costs include the Pension Administration Contract with LPPA, Project & Contract manager, payroll & legal charges and ad hoc project costs. The increase in budget in 2021/22 is the result of the agreed increase to the overall Pension Administration contract as well as an increase of payroll recharge. Additional resources have also been factored in to support the triennial valuation.
- A further increase in 2022-23 is planned, as a result of factoring in 5.1% inflation on the Administration Contract, as well as additional resource to support a number of pension related projects, through expected changes to regulations i.e. McCloud and work to further improve the funds data i.e. reconciliation between the Pension Administration and Payroll System.

- There is a slight increase in costs for 2023-24 as a result of the assumption by applying an additional 5.1% inflation to the overall contract.

### Investment Management Expenses

These costs will include any expenses incurred in relation to the management of Fund assets. Fees are calculated based on market values under management and therefore increase or reduce as the value of investments change. In Line with the CIPFA LGPS Example Accounts guidance, the breakdown of management fees over each asset class can be found in Note 11a in the Statement of Accounts and not shown here.

	2020/21 Actual £000	2021/22 Estimate £000	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Fund Manager Fees	3,159	3,100	3,954	3,500	3,500	3,500
Performance Related Fees	102	105	117	120	120	120
Transaction Costs	67	80	97	80	80	80
Custodian Fees	37	50	42	40	40	40
Performance Measurement services	33	35	31	35	35	35
Other Investment Fees	14	15	-	15	15	15
<b>TOTAL</b>	<b>3,412</b>	<b>3,385</b>	<b>4,241</b>	<b>3,790</b>	<b>3,790</b>	<b>3,790</b>

Please note the following regarding the above figures:

- Fund Manager Fees are charged according to the fund value; therefore, an average figure from the last two years has been applied for estimates 2022/23 onwards. 2021/22 Actual includes one off equalisation fees of £300k
- Custodial service contract increased to provide additional accounting service from 2021/22.

### Governance and Oversight

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

	2020/21 Actual £000	2021/22 Estimate £000	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2023/24 Estimate £000
Financial Services	163	165	178	165	165	165
Actuarial Fees	13	25	19	100	25	25
Audit Fees	16	60	78	60	60	60
Member Training (inc. LPB)	-	10	1	10	10	10
Advisor Fees	69	75	72	75	75	75
London CIV	119	110	119	120	120	120
Local Pension Board	1	5	3	5	5	5
Pensions Committee	33	35	35	35	35	35
Other Fees	1	10	19	5	5	5
<b>TOTAL</b>	<b>415</b>	<b>495</b>	<b>524</b>	<b>575</b>	<b>500</b>	<b>500</b>

Please note the following regarding the above figures:

- Next valuation in 2022 so higher charges expected during 2022/23.
- Audit fees subject to approval by Public Sector Audit Appointments (PSAA).

<b>OVERALL MANAGEMENT TOTAL</b>	<b>4,428</b>	<b>4,575</b>	<b>5,474</b>	<b>5,140</b>	<b>5,075</b>	<b>5,075</b>
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## Cash Flow Management

Cash flow management is an essential part of the administration of the pension scheme as the Fund has to meet its on-going benefit payments. The Fund provides benefits for employees, which include retirement pensions, death grants and other lump sum payments.

These benefit payments can be split between the more **predictable payments**, such as monthly pension payroll or the more **unpredictable** payments such as transfer value payments, retirement lump sums or death benefits.

Income received by the Fund can be split between the more **predictable income** such as employer and employee contributions and the more **unpredictable income** such as Transfers In from other pension schemes and additional contributions from Havering council.

The working cash balance is reviewed monthly and cash flow projections are carried out up to the end of 31 March. The cash balance is maintained so that it is not so large as to reduce the potential for future investment returns and not so small so as to create the risk that the balance will be easily exhausted and thus require disinvestments to be made frequently or at short notice.

The table below shows the cash balances split between predictable and unpredictable income and payments:

	Bal b/f	Cash Movement 2017/18	Cash Movement 2018/19	Cash Movement 2019/20	Cash Movement 2020/21	Cash Movement 2021/22	Cumulative Cash balance (c/f)
<b>Income</b>							
Predictable		(36.4)	(43.2)	(47.9)	(47.0)	(48.7)	
Unpredictable		(10.2)	(2.4)	(6.2)	(5.5)	(4.6)	
<b>Sub Total</b>		<b>(46.6)</b>	<b>(45.6)</b>	<b>(54.1)</b>	<b>(52.5)</b>	<b>(53.3)</b>	
<b>Outgoings</b>							
Predictable		31.4	40.0	35.1	34.9	( <sup>2</sup> )45.7	
Unpredictable		10.2	9.6	9.6	( <sup>1</sup> )24.7	9.3	
<b>Sub Total</b>		<b>41.6</b>	<b>49.6</b>	<b>44.7</b>	<b>59.6</b>	<b>55.0</b>	
<b>Total</b>	<b>(12.7)</b>	<b>(5.0)</b>	<b>4.0</b>	<b>(9.4)</b>	<b>7.1</b>	<b>1.7</b>	<b>(14.3)</b>

(1) Includes one-off settlement of £15m to fund bulk transfer out

(2) Includes £10.5m to fund investment movements

The overall cash balance continues to be positive with, as expected, the unpredictable elements causing the most fluctuations to the cash position.

The cash flow policy adopted by the Fund in September 2019 sets out that the target cash level should be £6m but not fall below the de-minimis amount of £3m or exceed £8m. Should the cash level fall below the set de minimis of £3m then this should be topped up in the first instance by using investment income. In the event that cash levels rise above the set upper limit of £8m, cash will be invested in the most underweight asset allocation within the investment strategy. The cash flow policy allows the Statutory S151 officer to exceed the thresholds to meet unforeseeable volatile unpredicted payments (e.g. impact on the Pension Fund for restructures). Any excess cash above the £8m thresholds can be considered for reinvestment/rebalancing or settlement of capital calls.

The Fund's Actuary is required to report on the "solvency" of the whole Fund in a valuation which is carried out at least once every three years. As part of this valuation, the Actuary will calculate the solvency position of the whole Fund and for each employer. Therefore, the Fund does not use separate forecasts for cash flows (other than as set out above) and asset values over the three-year future cycles as assumptions made about the factors affecting the Fund's finances in the future (e.g. asset values and cash flows) are included in the valuation report. Working cash flow and asset values are monitored regularly and reported quarterly to the Committee.

Details about the financial assumptions used by the Actuary can be found within the Valuation Report 2019, which is available on the Authority's website and can be found by selecting the link to the [Havering Pension Fund](#) here.

### Contributions to the Fund

The cost of membership:

Employees pay a tiered contribution based on actual pensionable pay of between 5.5% and 12.5%, or half this rate for 50/50 section members. Employee contribution rates for 2021/22 are set out in the table below:

Contribution Table 2021/ 22			
Band	Actual Gross Pensionable Pay for an employment £	Contribution Rate for that employment	
		Main Section %	50/50 Section %
1	Up to 14,600	5.50	2.75
2	14,601 to 22,900	5.80	2.90
3	22,901 to 37,200	6.50	3.25
4	37,201 to 47,100	6.80	3.40
5	47,101 to 65,900	8.50	4.25
6	65,901 to 93,400	9.90	4.95
7	93,401 to 110,000	10.50	5.25
8	110,101 to 165,000	11.40	5.70
9	165,501 or more	12.50	6.25

Employers also pay a contribution towards the pension costs. This amount is decided every three years following an independent actuarial evaluation by the Fund's Actuary. In 2020/21 the contribution rates due from the other employers in the Havering Pension Fund range from 14.2% to 40.8%, including payments of past service contributions.

Further details of the LGPS can be found on the pension's website [here](#).

The London Borough of Havering as a scheme employer review LGPS bandings on an annual basis each April, therefore re-grading and changes in hours do not affect contribution rates until the following year.

The Authority is required to make balancing contributions as determined by the Fund's actuary to maintain the solvency of the Fund. The Authority's minimum employer's contribution for employees in 2021/22 was 16.5% of salary plus cash of £12.650m (2020/21 15.6% plus cash of £12.650m). The Authority's annual contribution is reviewed every three years. The valuation based on data as at 31<sup>st</sup> March 2019 set employer contribution rates for 2020/21, 2021/22 and 2022/23.

The payment of contributions by employers with external payrolls is monitored on a monthly basis by the Havering Pensions Administration Team. The Authority receives a breakdown of individual employee and employer contributions, which is reconciled against the payments.

All new employers are provided with instructions and written guidance for making payments and the timescales for payments. In advance of admission to the scheme all new employers are informed of the employer contribution rate applicable and the required bond level.

All admitted body employers are currently required to purchase a bond or provide a guarantee, which protects the Fund against default payments. There are currently 13 active admitted bodies in the fund

The following table shows how many members were making contributions to the Fund together with the employers' contributions:

<b>Contributing employers</b>	<b>Active Members</b>	<b>Contributions from Members £</b>	<b>Contributions from Employers £</b>
London Borough Havering (including schools – non teaching staff only)	4,782	6,546,984	34,987,387
<b>SCHEDULED BODY:</b>			
Hall Mead School	99	107,170	375,902
The Frances Bardsley Academy for Girls	80	94,064	340,430
Redden Court School	66	79,584	273,270
The Champion School	78	74,414	269,599
Coopers' Company & Coborn School	57	68,325	251,629
The Brittons Academy Trust	59	57,190	238,887
St Edward's Church of England School & Sixth Form	41	41,176	211,955
Lime Academy Forest Approach	82	58,207	210,855
Drapers Academy	48	58,632	206,141
Lime Academy Ravensbourne	83	49,646	198,159
Bower Park Academy	40	47,041	185,173
Sacred Heart of Mary Girls' School	54	44,731	183,712
Harris Academy Rainham	53	48,591	178,054
Marshalls Park Academy	39	41,380	177,028
Emerson Park Academy	64	39,535	155,862
Hacton Academy	68	36,088	149,268
Royal Liberty Academy	37	38,065	146,398
Drapers Pyrgo Primary	69	36,728	136,192
Sanders Academy	31	36,629	131,831
Abbs Cross Academy and Arts College	34	29,440	126,887
Hornchurch High School (Albany)	55	37,291	126,862
Harrow Lodge Academy	55	27,105	104,122
Benhurst Primary	30	21,510	91,085
Oasis Academy (Pinewood)	44	23,716	89,307

<b>Contributing employers</b>	<b>Active Members</b>	<b>Contributions from Members £</b>	<b>Contributions from Employers £</b>
Scargill Infant Academy (Hornchurch Academy Trust)	30	22,391	84,981
Rise Park Junior Academy	50	21,441	84,575
Drapers Brookside Infant Academy	41	20,139	76,775
Drapers Brookside Junior Academy	34	21,138	74,160
Whybridge Junior Academy	30	17,440	71,868
Upminster Junior Academy	36	17,233	71,765
Rise Park Infant School	36	17,360	71,033
Drapers Maylands Primary Academy	21	19,323	70,578
Gaynes Academy	19	15,621	66,714
Langtons Junior Academy	33	17,404	65,025
Olive Academy MAT	7	17,047	59,530
Concordia Academy	23	20,391	59,232
Scargill Junior Academy	26	14,477	59,124
Upminster Infant Academy	36	13,962	56,561
Drapers MAT (Management)	6	20,592	52,261
Olive Academy Trust (Birnum Wood)	5	9,255	38,769
Dame Tipping School	11	8,117	33,843
<b>Scheduled Body Total</b>	<b>1,810</b>	<b>1,489,590</b>	<b>5,655,402</b>
<b>ADMITTED BODIES:</b>			
Sports & Leisure Management – Charitable Trust	33	36,248	165,764
Sports & Leisure Management – Fitness and Health	11	2,893	12,053
Breyer Group Repairs	7	13,268	55,645
Olive Dining	6	6,058	43,349
Accent Catering	5	3,927	21,445
Lewis & Graves	5	2,700	16,103
Harrison Catering	1	523	3,630
Harrison Catering (Gaynes)	1	890	5,475
May Harris (Royal Liberty)	5	3,224	14,806
May Harris (Sanders)	1	-	-
*Citizens Advice Bureau	0	-	9,600
**Caterlink (Frances Bardsley)	4	-	-
**Caterlink (Dame Tipping)	1	-	-
**Atalian Servest Food Co	2	-	-
<b>Admitted Bodies Total</b>	<b>82</b>	<b>69,730</b>	<b>347,870</b>
<b>RESOLUTION BODY:</b>			
Mercury Land Holdings	1	4,891	10,415
<b>TOTAL</b>	<b>6,675</b>	<b>8,111,195</b>	<b>41,001,074</b>

\*Cessation repayment

\*\* awaiting legal documentation to be completed before contributions are collected

A summary follows of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

	Active	Ceased	Total
Administering Authority	1		1
Scheduled Bodies	41		41
Admitted Bodies	14	1	15
<b>Total</b>	<b>56</b>	<b>1</b>	<b>57</b>

Monitoring of pension overpayments, recoveries and amounts written off, including the results of participation in the biennial National Fraud Initiative, is being regularly reviewed.

Invoices raised, and amounts recovered, since 2012/13 relating to recoverable overpayments of pension to deceased and child members of the scheme are set out in the table below.

Year debt raised	Amount of debt raised	Debt collected	Debt outstanding
	£	£	£
2012/13	8,927	6,837	2,090
2013/14	5,211	1,946	3,265
2014/15	9,901	4,958	4,943
2015/16	10,384	6,195	3,803
2016/17	22,398	12,585	9,813
2017/18	11,499	7,421	4,078
2018/19	25,083	21,603	3,480
2019/20	23,608	18,125	5,474
2020/21*	26,495	9,503	16,992
2021/22**	34,915	4,237	30,678

\*Delays in raising invoices on the new Fusion system has led to a higher than expected level of outstanding debt being carried forward

\*\* A mortality screening exercise identified a number of pensions in payment in respect of deceased members. This led to a number of backdated overpayments where invoices have been issued to the next of kin's last known address. As these are historic cases the contact information is sometimes out of date and recovery is proving difficult.

The Administering Authority has a policy in place with regard to the overpayment of pensions following the death of a pensioner or dependent member. The policy was introduced in March 2019 enabling overpayments of pension of less than £250 net following the death of a pensioner or dependant member, where there is no ongoing dependant pension payable, to be automatically written off.

The total debt automatically written off during 2021/22 is currently being produced – in 2020/21 it was £3,792.30 covering 53 different cases, which is an average of £71.55 per case, and falls below the expected average of £5,000 per annum.

The Authority has always subscribed to the National Fraud Initiative (NFI). For pensions this involves identifying any deceased members of the LGPS and any pension abatements not already known to LPPA. The most recent NFI exercise was undertaken in September 2021. LPPA also utilise 'Tell Us Once' service which is monitored on a weekly basis and a monthly mortality screening exercise.

The total value of contributions paid into the Fund was £49,112,269 made up of employer contributions of £41,001,074 and employee contributions of £8,111,195. Two employers paid their contributions late on one

occasion due to a technical payroll issue. It was not considered to be material and no charge was made. The Fund's charging policy is available on the Council's website [havering - charging policy](#)

# Investment Policy and Performance Report

## INVESTMENT POLICY

The overall direction of the Fund's Investment Strategy is delegated to the Authority's Pensions Committee. The Committee also oversees the Fund's investment arrangements and publishes its policies on a range of matters relating to investments.

The Investment Strategy Statement (ISS) sets out the London Borough of Havering's policies, in its capacity as Administering Authority, for the investments of the Fund.

The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund's members under the Local Government Pension Scheme. Against this background, the Fund's approach to investing is to:

- Optimise the return consistent with a prudent level of risk;
- Ensure that there are sufficient resources to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. It plays an important role in meeting the longer-term cost of funding, and how that cost may vary over time. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

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 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

The Fund's funding position will be reviewed at each triennial actuarial valuation, or more frequently as required. It is intended that the Fund's investment strategy will also be reviewed at least every three years following actuarial valuations of the Fund.

The Pensions Committee has also developed a formal Statement of Investment Beliefs. These beliefs have been incorporated within the ISS. The Pensions Committee believe that having a clear set of investment beliefs can improve governance by providing a framework for all investment decisions. It will provide a rationale for the decision making process and drive the ISS going forward.

## ASSET ALLOCATION

The Committee adopted a new Investment Strategy Statement (ISS) in November 2017 and implementation of achieving the long term target asset allocation has been ongoing since then. An updated version of the ISS was presented to the Pensions Committee at its meeting on the 29 July 2020 (postponed from 17 March 2020) and the Committee agreed the proposed amendments.

The ISS was updated to reflect the decisions and progression of the implementation of the strategy made by the Committee since its launch in 2017. Following the 29 July 2020 meeting the Committee considered and agreed further developments in the investment strategy at its meetings on the 1 October 2020 and 16 March 2021.

The planned asset allocation and movement in the asset allocations is shown in the following table:

Asset Class	Long Term Target Allocation ISS Jul 20	Long Term Target Allocation ISS Current	Actual Asset allocation March 2021	Actual Asset allocation March 2022	Asset Allocation March 2022 vs ISS Current Target
	%	%	%	%	%
<b>Equities</b>	<b>35.0</b>	<b>40.0</b>	<b>41.9</b>	<b>39.8</b>	<b>-0.2</b>
Passive Global Equity	7.5	5.0	8.2	3.8	-1.2
Passive Fundamental Equity	7.5	0.0	7.4	0.0	0.0
Passive Emerging Markets	5.0	5.0	4.5	4.1	-0.9
Passive Future World		10.0	0	10.1	0.1
..Passive Equity Progressive Paris Aligned Fund (PEPPA)		5.0		4.9	-0.1
Active LCIV Global Equity	15.0	0.0	21.8	0.0	0.0
..Active Global Alpha Paris Aligned		15.0		16.9	1.9
<b>Multi Asset</b>	<b>27.5</b>	<b>20.0</b>	<b>22.8</b>	<b>22.3</b>	<b>2.3</b>
LCIV Absolute Return	15.0	12.5	12.7	13.0	0.5
LCIV Diversified Growth	12.5	7.5	10.1	9.3	1.8
<b>Real Assets:</b>	<b>17.5</b>	<b>20.0</b>	<b>13.0</b>	<b>16.5</b>	<b>-3.5</b>
Property	10.0	10.0	7.9	10.2	0.2
Infrastructure	7.5	7.5	5.1	5.5	-2.0
Renewable Infrastructure		2.5		0.8	-1.7
<b>Bonds and Cash</b>	<b>20.0</b>	<b>20.0</b>	<b>22.3</b>	<b>21.4</b>	<b>1.4</b>
Index Linked bonds	5.0	5.0	4.4	4.4	-0.6
Multi Asset credit	7.5	7.5	7.1	6.9	-0.6
Corporate Bonds	0	0	4.3	2.4	2.4
Private Debt	7.5	7.5	4.2	6.0	-1.5
Cash	0	0	2.0	1.8	1.8
Currency Hedging P/L	0	0	0.3	-0.1	-0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0</b>

Short-term performance of asset class and managers will result in a deviation from benchmarks from time to time.

In line with the ISS, when the Fund allocation deviates by 5% or more from the strategic allocation, the assets will be rebalanced back to within 2.5% of the strategic asset allocation. In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Committee may decide to suspend rebalancing temporarily.

Underweight positions in Private Debt, Renewable Infrastructure and Infrastructure relates to outstanding capital calls totalling £117m as at 31 March 2022, which will continue to be met during 2022/23 and beyond. Outstanding Capital commitments will be mainly funded from Corporate Bonds and rebalancing of overweight positions in Equity and Multi Asset funds.

Overweight allocation to cash will be also be considered for reinvestment or settlement of capital calls.

The Fund will continue to have ongoing discussions with the London CIV to progress the transition of assets onto the London CIV platform in accordance with the Department of Levelling Up, Housing and Communities (DLUHC) formerly known as Ministry of Housing, Communities and Local Government (MHCLG) timelines.

**Significant implementation/progression of the investment strategy during 2021/22 were as follows:**

- Increased the commitment to Stafford SISF IV fund by €10m (c£9m) to maintain the target asset allocation.
- Following the decision to increase the infrastructure target asset allocation from 7.5% to 10%, the additional 2.5% increase was allocated to the London CIV (LCIV) Renewables Fund. On-boarding process completed with the first capital calls commencing in July 2021.
- Invested 10% of the Funds' assets in the Legal & General Investment Management (LGIM) Future World Fund, funded from redeeming the LGIM Fundamental Equity mandate (aka FTSE International Limited and Research Affiliates LLC (RAFI) and by rebalancing the Baillie Gifford Global Alpha overweight allocation. Switch was completed on the 09 September 2021.
- Agreed to convert the investment in the Baillie Gifford Global Alpha Fund to that of the Baillie Gifford Paris Aligned Global Alpha Fund. Holdings with the LCIV Baillie Gifford Global Alpha Fund was switched to its Paris Aligned version on the 15 September 2021. This change is consistent with the Committee's investment belief on managing climate risk and demonstrates progressive change, whilst creating potential to capture upside opportunities associated with the transition to a lower carbon economy.
- Increased the allocation to the Funds UK Property Manager (UBS) by £10m at its meeting on the 14 September 2021. Payment was made on the 20 October 2021 and funded from internally held cash.
- In order to maintain the overall target asset allocation to Private Debt at 7.5%, members agreed to make continued investments in the new vintages issued by Churchill and Permira. First Capital Call for the new Churchill IV fund was 23 November 2021. The on boarding of the Permira Credit Solutions V (PCS5) completed on the 17 December 2021.
- Increased the commitment to JP Morgan by £12m. This was paid on the 1 April 2022.
- Invested 5% to the LCIV Passive Equity Progressive Paris Aligned (PEPPA) Fund. This was funded from a drawdown from the Legal & General All World Equity Fund and completed on 3 December 2021. This fund aims to meet the requirements of the EU Paris-Aligned Benchmark standard.
- The Fund has continued to fund capital calls during the year from the Private Debt and Infrastructure mandates, as follows:

Investment Manager	Mandate	Amount £000's
Stafford II	Infrastructure	1,721
Stafford IV	Infrastructure	5,637
LCIV Renewables	Infrastructure	6,916
Churchill II	Private Debt	2,135
Churchill IV	Private Debt	7,607
Permira PCS4	Private Debt	8,251
<b>Total</b>		<b>32,267</b>

## Investment Administration and Custody

The Fund uses the services of an appointed custodian, this being Northern Trust from the 1 October 2019. They operate a wide range of services but are mainly responsible for the safekeeping and custody of the Fund assets and are responsible for Investment Accounting and Reporting. They ensure that accurate records and certificates of the ownership of stock are maintained and ensure that dividend income and other distributions are received appropriately. They also keep a record of the book costs in the various asset classes and provide a market valuation of the Fund. It is the custodian's records that are used to produce the investment balances in the Fund's accounts.

Fund Manager Performance is reported to the Committee on a quarterly basis. Current reporting arrangements are that one fund manager will attend each meeting. Based on the current fund manager numbers and the planned quarterly committee cycle, then the Committee would see each manager every 24 months. If there are any specific matters of concern to the Committee relating to any manager's performance, arrangements can be made for additional meetings with those managers.

The Fund's investment advisors attend the quarterly Committee meetings and also produce a quarterly report, including fund manager performance and market commentary.

The Fund subscribes to the CIPFA Pensions Network, which aims to support pension practitioners and is dedicated to pension fund bodies, offering services in relation to investment, audit, accounting, administration and governance.

## INVESTMENT PERFORMANCE

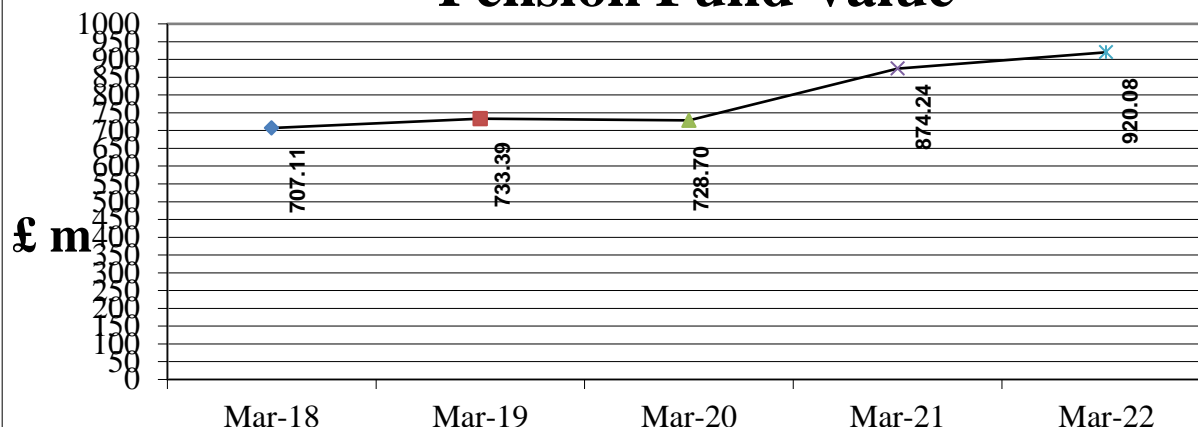
The Fund is invested in shares issued by companies listed on the stock exchange and on foreign exchanges and also in bonds, property funds and in cash.

The Net Assets of the Fund has increased to **£920m** for 2021/22 from £874m in 2020/21, a net increase of **£46m**.

The net increase of **£46m** is compiled of a change in the market value of assets of £25m, investment income of £15m, net withdrawals of cash of £11m and offset by management expenses of £5m. Further details are included within the Fund Account and Net Asset Statement included in this report.

The chart below shows the Fund value over the last five years:

## Pension Fund Value



The Fund uses the services of Performance Measurers (Northern Trust) to provide comparative statistics on the performance of the Fund. The performance of the Fund is measured against a tactical and a strategic benchmark.

In 2021/22, the overall return on the Fund's investments was **4.59%** (2020/21 24.90%). This represented an under performance of **-3.49%** against the tactical benchmark (2020/21 out performance of 8.86%) and underperformance **-2.14%** against the strategic benchmark (2020/21 out performance of 20.71%).

The following table shows the overall net of fees performance of the Fund:

	<u>1 year to</u> <u>31.03.21</u> %	<u>1 year to</u> <u>31.03.22</u> %	<u>3 Years to</u> <u>31.03.22</u> %	<u>5 years to</u> <u>31.03.22</u> %
Fund Return	24.90	4.59	8.75	6.88
<b>Tactical Benchmark</b>	<b>16.04</b>	<b>8.08</b>	<b>7.87</b>	<b>6.36</b>
Performance	8.86	-3.49	0.88	0.53
Fund Return	24.90	4.59	8.75	6.88
<b>Strategic Benchmark</b>	<b>4.19</b>	<b>6.74</b>	<b>4.93</b>	<b>4.88</b>
Performance	20.71	-2.14	3.82	2.00

*A geometric method of calculation has been used in the above table and consequently this may not sum*

A **strategic benchmark** has been adopted for the overall Fund of Index Linked Gilts + 1.8% per annum. This is the expected return in excess of the fund's liabilities over the longer term. The strategic benchmark measures the extent to which the fund is meeting its longer term objective of reducing the funds deficit.

**Tactical benchmark** - Where appropriate, Fund Managers have been set a specific (tactical) benchmark as well as an outperformance target against which their performance is measured.

Fund Manager Performance is measured against benchmarks and targets as follows:

Asset Class	Investment Manager/ product	Segregated / pooled	Active/ Passive	Benchmark and Target
<b>Equities</b>				
UK/Global Equity	LCIV Baillie Gifford (Global Alpha Paris Aligned Fund)	Pooled	Active	MSCI ACWI by 2- 3 % p.a. over a rolling 5 five year period Plus have a weighted average greenhouse gas intensity that is lower than MSCI ACWI EU Paris Aligned Requirement index
UK/Global Equity	LCIV State Street Passive Equity Progressive Paris Aligned Fund (PEPPA)	Pooled	Active	Developed EX-Korea Large Midcap Net Zero 2050 Paris aligned ESG Index
UK/Global Equity	Legal & General Investment Management	Pooled	Passive	FTSE All World Equity Index
UK/Global Equity	Legal & General Management Future World Fund	Pooled	Passive	FTSE AW ex CW Climate Balanced Factor Index
UK/Global Equity	Legal & General Investment Management	Pooled	Passive	FTSE World Emerging Markets
<b>Multi-Asset</b>				
Multi Asset	LCIV Baillie Gifford (Diversified Growth Fund)	Pooled	Active	Bank Base Rate + 3.5%
Multi Asset	LCIV Ruffer	Pooled	Active	Preserve and grow capita) Outperform cash +4%)
<b>Real assets</b>				
Property	UBS	Pooled	Active	Match MSCI All Balanced Funds Weighted Average Index
Property	CBRE Global Property	Pooled	Active	CPI + 5% p.a (net of fees)
Infrastructure	JP Morgan	Pooled	Active	CPI + 5% p.a (net of fees)
Infrastructure	Stafford SISF II & IV	Pooled	Active	CPI + 5% p.a (net of fees)
Infrastructure	LCIV Renewable Energy	Pooled	Active	CPI +5%% p.a. (net of fees)
<b>Bonds and Cash</b>				
Index Linked Bonds	Royal London	Segregated	Active	40% FTSE Index- linked over 5 years.
Multi Asset Credit	Royal London	Pooled	Active	<ul style="list-style-type: none"> <li>50% ICE BAML, BB-B Index</li> <li>50% Credit Suisse US Leveraged Loan Index GBP Hedged</li> </ul>
Corporate Bonds	Royal London	Segregated	Active	iBoxx Sterling Non- Gilt over 10 years
Private Debt	Churchill Nuveen II & IV	Pooled	Active	Outperform cash + 4% p.a
Private Debt	Permira PCS4 and PCS5	Pooled	Active	Outperform cash + 4% p.a
Currency	Russell	Segregated	Passive	Hedge 100% of EUR,USD and AUD (non-equities)

The following table compares each Fund Manager performance against their benchmark and their rate of return for the twelve months ending 31 March 2022:

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark
<b>Equities Passive:</b>			
LGIM Emerging Markets	-3.56	-3.31	-0.25
LGIM Future World Fund*	-	-	-
LCIV PEPPA*	-	-	-
<b>Equities Active</b>			
LCIV Baillie Gifford (Global Alpha Paris Aligned Fund)*	-	-	-
LGIM Global Equity	12.67	12.75	-0.08
<b>Multi Asset:</b>			
LCIV Baillie Gifford (DGF)*	3.34	3.68	-0.34
LCIV Ruffer	7.27	4.14	3.13
<b>Property:</b>			
CBRE	16.24	12.10	4.15
UBS	25.73	23.14	2.60
<b>Infrastructure</b>			
Stafford SISF II	11.65	12.10	-0.45
Stafford SISF IV	28.14	12.17	15.98
JP Morgan	9.22	12.10	-2.87
<b>Bonds &amp; Cash:</b>			
Royal London Index Linked/MAC	3.12	1.94	1.17
Royal London Corporate Bonds	-6.07	-7.60	1.53
Churchill II	10.92	4.14	6.78
Churchill IV*	-	-	-
Permira	6.21	4.14	2.07
Cash	0.39	0.14	0.25

Source: Northern Trust Performance Measurement Service

\*\*Performance not shown as not invested for entire period but short-term performance is included within the overall fund performance and at asset class level.

The following table compares each Asset Class performance against their benchmark and their rate of return for the twelve months ending 31 March 2022:

Asset Class	Return (Performance)	Benchmark	Performance vs benchmark
Equities: Overall	0.01	9.56	-9.55
Equities -Passive	6.00	6.75	0.05
Equities - Active	-8.24	14.00	-22.25
Multi Asset	5.67	3.96	1.71
Property	22.14	18.72	3.43
Infrastructure	7.79	12.14	-4.34
Bonds	5.56	2.99	2.57
Cash	0.39	0.14	0.25

The Fund also uses the services of Pensions & Investment Research Consultants Ltd (PIRC) to provide LGPS universe comparisons against other LGPS funds. The Fund does not measure performance using the PIRC universe benchmarks it is shown as a comparison tool and information.

The PIRC Local Authority Universe comprised of 63 funds as at the end of March 2022 with a value of £250 billion.

Universe comparisons can be seen in the tables that follow:

### Universe Fund Performance

Universe data	2021/22					
	1 Yr %	3yrs % pa	5yrs % pa	10yrs % pa	20yrs %pa	30yrs %pa
Haverig Fund Return	4.6	8.8	6.9	8.5	6.5	8.5
<b>Universe Average</b>	<b>8.6</b>	<b>8.3</b>	<b>7.1</b>	<b>8.9</b>	<b>7.3</b>	<b>8.5</b>
Relative Return	-4.0	-0.3	-0.2	-0.4	-0.8	0.0
Haverig Universe Ranking (21/22)	85	41	66	70	93	68
Haverig Universe Ranking (20/21)	46	36	51	36	85	59
Haverig Universe Ranking (19/20)	13	30	67	54	87	48
Haverig Universe Ranking (18/19)	100	87	89	57	93	51

### Universe asset allocations as at March 2022

Universe Data	Average Allocation %	Haverig Allocation %	Average Return %	Haverig Return %	Haverig Percentile Ranking
Equities	52	40	7.6	0.0	98
Bonds/Credit	18	20	-0.3	5.6	1
Alternatives	17	6	19.0	10.4	78
Property	9	10	17.9	22.1	12
Cash	2	2	no data	no data	no data
Diversified Growth	2	22	4.7	5.7	32

### PIRC Universe Summary:

- **Last 12 months:**

- Last year the average fund returned 8.6%, with 50% of the Funds delivering a return between 6% and 10%.
- Developed equities performed well until the first quarter of 2022 when the Ukraine war and fear of resulting inflation weighed heavily and markets fell.
- Over the twelve months however, developed markets were positive. Emerging markets, battered by a strong US Dollar and the continuing impact of COVID were the worst performing of all asset classes.
- Bond markets delivered negative results for the year, only inflation linked and private debt making it into positive territory.
- Strong results were delivered from alternative assets. Private equity once again delivering outstanding returns. Property continued to do well, returning almost 18%.

- **Asset Allocation**

- Over the year there was further disinvestment from Equities into diversifying assets.
- Within Equities there was continuation of the move started the previous year into 'climate aware' investments.
- Most portfolio changes through the year reflected the ongoing move into pool sub-funds.

**PIRC Havering Summary:**

- The average Fund returned 8.6% with most funds returning between 6% and 10%. Havering return of 4.6% was well below average
- The Funds return ranked in the 85<sup>th</sup> percentile The Fund is structured differently to the average fund:
  - The key difference is the high exposure to diversified growth. This structure had a negative impact on relative performance last year.
  - The Fund suffered further from below average returns within Equities where it was ranked 98<sup>th</sup> percentile.

**Comments on Fund performance from the Fund's Investment Advisors**

The main objective of the Havering strategy is to deliver stable long-term returns, i.e. seeking to achieve lower risk whilst still achieving the required level of expected return to meet the liabilities, through a diverse multi-asset strategy with a growing focus on generating return through income. The strategy remains very well diversified with this position continuing to increase as allocations to alternatives continue to increase over time.

The Havering strategy underperformed its benchmark over the 12 months to 31 March 2022. We outline the main contributors to this underperformance below.

**Poor 12-month equity performance**

The primary reason for the poor equity performance over the last year (and pretty much the sole reason for underperformance of the Fund relative to the benchmark), was the rapid market rotation away from growth stocks and favouring more value oriented stocks. Given the Fund's active equity allocation has a growth bias, this proved to be a drag on performance both within the equity portfolio and at a total Fund level.

Whilst action has been taken to reduce the active equity allocation, with profits having been taken to top up the allocation to the multi-factor strategy and bring the overall strategy more closely in line with target, this position has been a drag on return. The allocation remains slightly overweight relative to target, although a further disinvestment from the LCIV Global Alpha Paris Aligned Fund took place in early April.

The Fund also has a larger proportion of emerging market equities than the global benchmark, which detracted as developed markets outperformed. However, this position has been beneficial in 2022 to date as emerging market equities have retained their value better than developed market equities.

**Mixed 12-month multi-asset performance**

The LCIV Diversified Growth Fund (DGF), which also has a slight growth bias within its equity allocation, performed behind expectations. This allocation is being used to fund new allocations and will continue to be reduced over the coming year given the majority of different asset class exposures obtained via the DGF are now obtained directly through the Fund's other allocations.

In contrast, the LCIV Absolute Return Fund has performed very well over the year and has continued the strong performance into 2022, even as the vast majority of risk assets have sold off. We expect the more defensive nature of the Absolute Return Fund to be of benefit coming into a period of economic uncertainty.

### **Lower duration**

One key feature of the strategy that we have progressively moved towards has been the reduction in duration in the bond holdings of the portfolio. Whilst there is still an allocation to index linked gilts (which offer inflation protection), bond assets have been progressively rotated into cash-plus type mandates, which should benefit the strategy as interest rates increase. Whilst credit spreads will likely have detracted slightly from performance, we continue to focus on the potential for default within the different credit mandates although remain happy with the managers employed.

### **PIRC league tables – sole return focus**

The PIRC league tables focus solely on return and make no allowance for risk / risk adjusted returns. Although helpful to get a general insight, this makes it difficult to get a true like-for-like comparison where different funds will have different investment strategies and levels of risk. This should be noted if comparing relative ranking in the PIRC tables.

## **VOTING AND ENGAGEMENT ACTIVITY**

The Investment Belief adopted by the Fund believes that effective stewardship through informed voting and engagement can positively influence corporate behaviours although success is most likely to be achieved through greater collaboration

The Fund does not have its own voting and engagement policy and in line with the Fund's current ISS, engagement and voting activity is delegated to the Fund's Investment managers with the Fund reviewing their approach on an annual basis.

Shareholder rights are only available to the Fund's investment managers that have segregated equity holdings. Equity holdings currently held are managed on a pooled basis so the Fund has no shareholder rights in respect of voting.

In relation to equity funds, 45% are managed via the London Collective Investment Vehicle (LCIV) (Baillie Gifford mandates, Ruffer and PEPPA), the LCIV operator has responsibility for engaging directly with those investment managers. 18% of the funds pooled passive equities are also managed by LGIM.

The Fund subscribes to the Local Authority Pension Fund Forum (LAPFF) in recognition of the need to collaborate with other investors to promote best practice on responsible investment and effectively engage with companies.

LCIV is also a member of LAPFF and works with EOS at Federated Hermes to execute their votes and engagement activities. LCIV produced their voting guidelines in April 2022, which details the implementation of their voting guidelines and their review process. The link to the following document includes their voting and engagement records.

[LondonCIV\\_ResponsibleInvestmentandStewardshipOutcomesReportMar22.pdf](#).

In support of the Committee's ongoing monitoring requirement, the Fund's Investment Advisor (Hymans) present an annual summary on the voting and engagement activities undertaken by the Funds' managers. This review also incorporates compliance with industry governance standards. The annual report for the year ending June 2021 was presented to the Pensions Committee at its meeting on the 25 January 2022 and

### **In summary:**

- During the year, the Fund had investment through two managers across six mandates with equity exposure (as at period of review - June 2021). The two managers are LGIM and LCIV although LCIV's policy is to delegate voting implementation to the underlying managers, Baillie Gifford and Ruffer. LGIM operate their own voting policy independent of LCIV.

- The vast majority of votes that were eligible to be exercised were voted. Exercise rates for all six mandates was at least 97%.
- All managers demonstrated a preparedness to vote against company management on occasion. LGIM voted against management most frequently with around 16% of votes, on average. This is consistent with the index-tracking nature of these mandates.
- Climate change was the most frequent reason for engagement for managers whilst diversity was one of the top five reasons for both Baillie Gifford and LGIM.
- Similar to last year there was commonality in the reasons why managers voted against management with Remuneration and Director re-election being key themes. It should be noted that managers may vote against re-election of directors for a number of reasons which may be unrelated to the particular director.
- Signatories to the UK 2020 Stewardship Code and United Nations Principles for Responsible Investment (UNPRI) as follows:
  - **Equities and Multi asset** - All of the Fund's Equity managers invested via the LCIV (LGIM, Baillie Gifford and Ruffer) are signatories to the 2020 UK Stewardship Code and signatories to the United Nations Principles for Responsible Investment (UNPRI) rated A or above.
  - **Real Assets** – All of the Fund's Real asset managers (UBS, CBRE, JP Morgan and Stafford) are signatories to the UNPRI rated A or above.
  - **Bonds and Private Debt**– Churchill, Permira and Royal London and are signatories to the UNPRI rated A or above.

## RESPONSIBLE INVESTMENT (RI)

### LCIV Responsible Investment, Stewardship, Investment Beliefs and Climate Change - Overview

The Fund has 46% of its investments directly managed via the LCIV, therefore the fund looks to the LCIV to have in place policies and processes to assist in meeting its RI and stewardship responsibilities. The following section provides an overview and the policies in place with regard to Responsible Investments, Investment beliefs, Stewardship and Climate change.

Their Investment Beliefs set the direction for LCIV investment policy, practices and organisational culture. They help define how they will create investment value, in the context of future uncertainty, risk and opportunity. Whilst helping to make practical decisions about investment style, selection and monitoring of investment managers, asset allocation, investment decisions, performance objectives, and approach to active ownership.

London CIV is a signatory to the 2020 UK Stewardship Code and the UN backed Principles for Responsible Investment (PRI) and aligns its processes to the six principles and definition of Responsible Investment (RI). Their approach is informed by their investment beliefs, client policies and priorities, industry best practice demonstrated by peers together with regulation.

As Client Funds retain responsibility for asset allocation and investment strategy, and thus exposure to climate risk. LCIV's purpose to help its clients understand and manage these risks, whilst also addressing the global climate issues and drive progress. Their policies set out the framework of beliefs and policies that guide stewardship activity and stewardship outcomes.

London CIV has committed to become a Net Zero entity by 2040 in line with the Paris Agreement objectives to limit global temperature rise below 1.5°C. It will also become a Net Zero Company across operational and supply chain emissions as early as 2025. Alongside its main commitment, London CIV has set interim targets for its investments including a 35% carbon intensity reduction by 2025 (relative to 2020), and 60% by 2030 across funds invested via the London CIV Fund range worth £12.9bn in total. London CIV plan to achieve its goals by decarbonising existing funds through targeted engagement, contributing to avoided emissions, launching Low-Carbon and Paris-Aligned funds and eventually contributing to negative emissions.

For further reading, the following Policy documents are available on the LCIV website <https://londonciv.org.uk/responsible-investment>

- **Responsible Investment Policy 2022.** Details the approach that the Pool aims to follow in integrating environmental, social and governance ('ESG') issues in its investments.
- **Responsible Investment Transparency Report 2020**
- **UN PRI Assessment Report 2020**
- **Investment Beliefs 2022** – Sets out their six investment beliefs adopted as follows and how they plan to implement them.
  1. Long term investors earn better returns net of costs.
  2. Careful calibration of risk against objectives, together with robust risk management, leads to better risk-adjusted returns.
  3. Responsible Investment improves outcomes, mitigates risks and creates opportunities through:
    - a. Good corporate governance
    - b. Active stewardship and collective engagement
    - c. Effective management of climate change risk
    - d. Promoting diversity and inclusion
  4. Providing value for money is critical and it is essential to manage fees and costs.
  5. Collaboration, clear objectives, robust research and evidence-based decision-making adds value.
  6. Targeting opportunities across the public and private asset markets is aligned to the needs of Client Funds.
- **Responsible Investment & Stewardship Outcome report – for the year to 31 December 2021.**
- **Voting Guidelines Report 2022**
- **Climate Change Policy 2022** - By developing a dedicated Climate Change Policy, London CIV has created a three-step strategy to protect portfolios from the systemic risks posed by climate change using the following actions:
  1. Integration: embedding responsible investment into investment decision and design
  2. Engagement: collaboration with companies, managers, peers and participants
  3. Disclosure: transparent reporting in line with best practice
- **TCFD 2022** – London CIV have published their report in line with TCFD recommendations. This report covers the reporting year ending 31 December 2021.
- **Trucost Climate Related Portfolio Assessment** - This report by Trucost provides historical metrics as at December 2019 that may be used by asset owners and/or asset managers to support their climate-related disclosures in line with TCFD recommendation

## TASKFORCE FOR CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) REPORT

A framework for the disclosure of climate-related financial risks. The goal of the framework is for disclosures to inform stakeholders as to how companies are managing risks and to allow more informed investment, credit decisions. Whilst the TCFD framework was not explicitly developed for pension schemes, it has been adapted for their use.

TCFD aligned reporting is currently not yet a regulatory requirement for the LGPS but the Committee are keen to comply with these requirements as best they can whilst taking a proportionate approach with respect to the size and available resources of the Fund. As such, the Committee has produced its second TCFD report, published as a separate document [TCFD report 2022](#) and agreed at its Pensions Committee meeting on the 26 July 2022.

The Department of Levelling Up, Housing and Communities (DLUHC) has since issued a consultation on the 01 September 2022 closing on the 24 November 2022, seeking views on the proposals to require LGPS to report on climate –related risks to the Fund, in line with TCFD recommendations. It is likely that the first mandatory TCFD report will cover the year 2023/24 and be published by 1 December 2024.

## COST TRANSPARENCY

A **voluntary** Code of Transparency into investment management fees and cost was developed and approved by the Scheme Advisory Board (SAB) and launched in May 2017 with the current version of the code approved on 27 September 2021.

The LGPS Code of Transparency was introduced to assist LGPS clients gather cost information in a consistent format.

Fund managers to the LGPS are being encouraged to sign up to this Code to demonstrate their commitment to transparent reporting of costs. A full list of signatories signed up to the code are available to view on the SAB website [SAB Code of Transparency Manager List](#)

The Financial Conduct Authority (FCA) wanted to see a more consistent and standardised disclosure of costs and charges for institutional investors and in 2018, they launched the Institutional Disclosure Working Group (IDWG).

In November 2018, the Cost Transparency Initiative (CTI) was launched and became the organisation taking forward the work of the previous IDWG. The CTI is a partnership between the Pensions and Lifetime Savings Association (PLSA), the Investment Association (IA) and the LGPS Scheme Advisory Board.

As of 21st May 2019 a new framework of templates and guidance was released by the CTI. New signatories to the Code with effect from 21st May 2019 will be expected to complete the appropriate template within the CTI framework.

The CTI framework will be used to report costs and charges and help assess value for money of any investments. It is compatible with Markets in Financial Instrument Directive (MiFID II) and can be used by Defined Benefit and Defined Contribution schemes.

There are three different templates:

1. The User Summary, which can be used by schemes and advisors to provide a summary of key information across all investments.
2. The Account Template, which is the main cost disclosure template to be completed by the investment manager(s) and covers the majority of assets and product types.
3. The Private Equity Sub-template, which is to be completed by investment managers of closed-ended private equity funds.

The templates provide information on three main categories of investment cost: management fees, performance fees and transaction costs.

Cost transparency is also part of the revised CIPFA accounting standards issued for inclusion in LGPS and administering authorities' statutory annual report and accounts as well as being included in the government's criteria for pooling investments.

### **The Compliance System**

As part of the Code, investment managers are required to complete and submit the template for the relevant mandate (without request) to their LGPS clients on either an annual or quarterly basis as agreed with their client. In order to streamline the process and make it more widely available, the SAB procured a system from Byhiras which will take the form of online facility intended to:

- Be capable of accepting and storing template data
- Check the timeliness of data submission and report late returns
- Ensure that template data is signed off by managers as 'fair, clear and not misleading'
- Provide a check against the MiFID II total cost amount submitted separately by managers to their LGPS clients

As well as ensuring compliance with the Code the system could be used by LGPS clients to:

- Replace the existing excel format templates provided to them by managers
- View a useful but limited set of onscreen reporting and comparison tools
- Give permission to other LGPS clients or trusted third parties (e.g. their investment advisor) to access and export their template data
- Provide advanced reporting facilities under a phase 2 development subject to the agreement of Code clients.

The template data held within the compliance system will be separate from any other database held by Byhiras and cannot be shared by Byhiras with any third parties for any purpose.

The system will check that fields have been completed with suitable content (i.e. fraction where fraction needed, cells cross calculate to give a number referenced elsewhere in the template). On submitting the templates, the manager is asked to confirm that the template is fair, clear and not misleading (and are directed to the FCA website for more details on that statement). This system went live on **1 April 2020**.

The Fund has been in contact with its fund manager to gather the cost transparency data. The Fund asset managers who are listed as signatories on the SAB website and whether their templates have been uploaded to Byhiras website can be seen in the following table:

Fund Manager	Signatory on SAB website	Reporting Period	Template uploaded to Byhiras portal	CTI Main Account Template	CTI Private Equity Template
LGIM Emerging markets	✓	31 Mar 22	✓	✓	
LGIM All World Equities	✓	31 Mar 22	✓	✓	
LGIM Equites (RAFI)	✓	31 Mar 22	✓	✓	
LGPS CIV Ltd	✓	Not received	x	x	
LCIV Ruffer	✓	31 Mar 22	✓	✓	
LCIV Baillie Gifford (DGF)	✓	31 Mar 22	✓	✓	
LCIV Baillie Gifford Global Alpha	✓	31 Mar 22	✓	✓	
Royal London Corporate Bonds	✓	31 Mar 22	✓	✓	
Royal London Bonds	✓	31 Mar 22	✓	✓	
UBS	✓	31 Dec 21	✓	✓	
CBRE	✓	31 Mar 22	✓	✓	
Russell Investments	✓	31 Mar 22	✓	✓	
JP Morgan	✓	31 Mar 22	x		✓
Churchill II & IV	✓	31 Mar 22	✓		✓
Stafford II & IV	✓	31 Mar 22	✓		✓
Permira PCS4 & PCS5	✓	31 Mar 22	✓		✓
LCIV Renewables	✓	31 Mar 22	x		✓

Some of our Fund Managers report data quarterly in arrears and it has not been possible to collect the data in a timely manner for use in the accounts or the annual report covering the same time period, although the data provided does include costs for a full year.

Management Fees and costs identified for inclusion in the accounts, at time of preparation, are £4,168m, (£3,1338m 2020/21).

User summary reports are available from the Byhiras website, which summarise the Transaction costs, Management fees, Administration, Governance costs and Performance fees/returns. Currently these user summary reports do not include all of the Fund's managers, in particular the Private Equity templates, therefore extracting data from the user summary reports is not comprehensive to include in this report.

The fund, using the CTI individual Fund Manager templates, shows a summary of costs as shown in the following table:

<b>Cost Classification</b>	<b>CTI Main Account Template</b>	<b>CTI Private Equity Template</b>	<b>Total</b>	<b>Net Asset Value £920,083m</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>%</b>
Transaction Costs	1,291	7	1,298	0.14
Ongoing Charges:				
• Investment Management Fees	3,855	1,135	4,990	0.54
• Fund Operating Expenses - Administration	126	206	332	0.04
• Fund Operating Expenses- Governance	55	306	361	0.04
• Distribution, Communications & client Services	1		1	0.00
Incidental Costs/ Performance Fees	293	588	881	0.10
Lending & Borrowing	266		266	0.03
Property Expenses	682		682	0.07
<b>Total</b>	<b>6,569</b>	<b>2,242</b>	<b>8,111</b>	<b>0.96</b>

The Fund has not carried out any analysis of the data preferring, to wait a better understanding of interpreting the data is known and the compliance system is in full operation

Phase II of the compliance system development, will pre-populate the relevant CIPFA table 'Ongoing investment management costs' from the information submitted by managers. This will then be able to be used in our Statement of Accounts. An information pack on how this table links to the data from managers will be available on the SAB website in due course.

# Scheme Administration Report

## OVERVIEW

During 2020/21 LPPA moved to a new operating model and Havering administration work is now carried out across all of their sites by casework dedicated teams.

Responsibility for call handling and responding to online member queries sits with the central Pensions Helpdesk in Preston. During 2021/22 the Pensions Helpdesk answered an average of 94% (94% 2020/21) of calls going into the call centre across all clients with the average wait time for a call to be answered being 6 minutes 53 seconds (4 minutes 44 seconds 2020/21). 77% (66% 2020/21) of calls answered were resolved at the first point of contact.

The Pensions Helpdesk uses customer surveys to record satisfaction levels of call handling and retirement processing. In March 2022 overall satisfaction levels for call handling were 91.5% (95% in 2020/21) for Havering scheme members. Satisfaction levels for the processing of retirement cases averaged at 86% (95% 2020/21).

LPPA continue to review their service and look for efficiencies. During 2021/22 this included the phased migration to a new pension system for all clients. Havering are expected to migrate during quarter 3 of 2022/23.

### Value for Money Statement

A comparison of the 2021 SF3 data supplied to MHCLG shows that the Havering Fund was ranked seventh out of the 32 London Boroughs for cost per member in respect of the pension administration costs (ranked first in 2019/20 but administration costs were disproportionately low due to an incorrect un-cleared sundry creditor payment raised in 2018/19, however taking this into account Havering would be ranked third).

We have seen a decline in the number of cases meeting the key performance indicators which is shown in the key performance data. This is attributed to the implementation of a new pensions administration system for some of LPPA's clients during 2021/22 and the relaxation of agreed service level agreements during the migration period. Havering will migrate during phase 2 of the project between October and December 2022.

We continue to work with LPPA to improve the flow of information and processes to further enhance efficiencies. LPPA remain committed to reducing overheads to remain competitive and provide good value for money.

Our data quality on common data standards is currently 98% (97% 2019/20). Data quality is fundamental to ensuring an accurate valuation of the Fund's liabilities. The Fund introduced a data improvement plan which identifies areas and processes that can assist in maintaining, and improving on, the good quality, accurate data we already hold.

### Summary of Activities undertaken by LPPA during the year

LPPA is responsible for all aspects of the Fund administration including calculating benefits, processing joiners and leavers, record amendments, end of year returns, monitoring and administration of the Authority's Additional Voluntary Contributions (AVC) scheme. LPPA engagement team is responsible for communications and training for Scheme employers and pension scheme members.

The key functions of the LPPA are:

- Processing new members of the scheme
- Dealing with requests from members who wish to transfer their pension into or out of Havering's Fund
- Administering death benefits for scheme members
- Bringing pensions into payment on retirement or early retirement
- Providing estimates for members/employers

- Assisting members who wish to increase their pension provision through AVCs or APCs
- Processing leavers with a refund of contributions or deferred benefits
- Maintaining accurate records with changes to members' details
- Reviewing and monitoring third tier ill-health retirements
- Utilising information technology to improve service standards and efficiency
- Ensuring continual data cleansing in preparation for the next scheme valuation
- Continually reviewing all processes to improve the customer experience

The Havering administration team is responsible for:

- Monitoring, reviewing and updating Scheme governance in line with relevant regulations and guidance
- Monitoring, reviewing and updating pension fund policies
- Monitoring and recording contributions for bodies that do not utilise the Havering Council payroll
- Bi-annual National Fraud Initiative (NFI) compliance
- Admission, Monitoring and Cessation of scheme employers
- Reviewing risk profiles of scheme employers

LPPA have completed the Guaranteed Minimum Pension (GMP) reconciliation project which was an exercise to reconcile the records held by HMRC with the Havering pension records. During 2019/20 pensions identified as being underpaid have been corrected and any arrears due have been paid. Pensions identified as being overpaid were finalised during 2020/21 and the overpayments were written off. The final work stream was completed during 2021/22 clearing remaining cases that required additional investigation with HMRC.

### **Key Uses of Technology**

LPPA continue to look for ways to use technology to improve efficiencies and actively promote the use of the My Pension Online – Member Self Service (MSS) tool and the use of email communications.

MSS allows members to view their records online and raise any queries in a timely manner; they can also run estimates and update some personal details which takes tasks away from the administration team and reduces the cost of printing and postage.

The LPPA's scheme member's website is regularly reviewed and provides detail on all aspects of the scheme. During 2021/22 a Havering pensions page was introduced to the havering.gov.uk website to provide fund specific information to members of the Havering LGPS.

### **Internal Dispute Resolution Procedure (IDRP)**

Any internal disputes go firstly to the Authority's Actuaries and then to the Pensions Panel which comprises the Deputy Director of Human Resources/Organisational Development (OneSource), a representative from Legal and Governance (OneSource) and the Director of Finance (OneSource). The Havering Pensions Projects and Contracts Manager sits on the panel in an advisory role.

There have been no new Independent Dispute Resolution Procedure (IDRP) cases and 11 general customer complaints during 2021/22 (19 2019/20). This equates to 0,24% of cases.

### **Whistle Blowing**

The Pension Fund complies with the whistle blowing requirements of the Pension Act that came into force on 6 April 2005. It urges anyone to inform the correct authorities of any known wrong doings. The process for reporting breaches of the law to the Pensions Regulator can be found on the Authority's website by selecting the link here. [Havering Pension Fund - select Whistleblowing procedure](#)

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

## KEY PERFORMANCE DATA

CIPFA released guidance for capturing Key Performance indicators during 2018/2019. Unfortunately, it is not possible to capture all of the suggested data using current technology. Requirements will be reviewed and where possible steps put in place to be able to report key performance indicators in line with the guidance in future reports. The data below is in line with previous reports.

INDICATOR	What is it an indicator of?	Actual 2021/22 %	Target 2021/22 %	Actual 2020/21 %	Actual 2019/20 %
The percentage of retirements processed within 5 working days	The percentage of retirement payments processed within 5 working days of the employee retiring or receipt of all relevant information.  This indicator measures effectiveness through service delivery and is a standard throughout Local Government	96.1	98	100	99.44
The percentage of early retirement estimates processed within 5 working days	To produce estimates for early retirements i.e. ill health, redundancies and voluntary retirements within 5 working days of request, normal retirement date or receipt of all relevant information.  This indicator is particularly important to service clusters	99.5	98	99.9	99.80
The percentage of notification of deferred benefits within 4 working days	To notify members who have left their job (or one of their jobs) of the deferred benefits that they have accrued at the point of leaving within 4 working days of receipt of all relevant information.	98.2	98	100	98.21
The percentage of 'Transfers In' actuals processed within 4 working days.	The percentage of transfers in with the member's record updated with the transferred in information	97.2	98	100	97.70
The percentage of 'Transfers Out' actuals processed within 5 working days	The percentage of transfers out paid to the new pension provider	96.8	98	99.7	98.46
The percentage of 'death' notifications written out to within 5 days of receipt of all information received.	The percentage of deaths with notification of benefits	97.9	98	99.1	100
The percentage of joiners processed within 3 working days of information received	The percentage of joiners' records set up on the Pensions Administration System	99.3	98	100	99.85

Targets were set in line with CIPFA and London Centre of Excellence, cross councils benchmarking. They were reviewed by the Pension Fund Manager and Local Pensions Partnership as part of the Delegated Arrangement. The Pension Service Local Performance Indicators represent the main core of the administration team output but do not cover all the calculations and processes carried out

The data used to report the performance indicators is supplied by LPPA from their Case Management System (CMS). CMS is a bespoke workflow system acting as a comprehensive management information tool. It provides detailed analysis of all cases processed/outstanding on a daily basis.

The system builds in Havering's agreed SLA's and work is managed and allocated based on a day count basis from date received. The system monitors caseload volumes and performance against SLA's. It also allows LPPA to track error/rework rates; ensuring quality is maintained throughout the administration function. CMS provides easily accessible and reportable information enabling monitoring, audit, performance management and annual review reporting capabilities.

The system allows LPPA to track, case completion rates against agreed SLA's, cases completed early, elapsed times as well as produce data on why cases are pending, for example awaiting information from a third party or scheme employer.

The Havering administration team receives a quarterly performance report and monitors the cases completed against the reported performance.

The indicators do not include record keeping and data maintenance tasks covered by LPPA, which are required to correctly administer a member's benefit and also have a direct impact on the triennial valuation

Annual Benefit Statements are required to be sent to active and deferred scheme members by 31<sup>st</sup> August each year. This was achieved successfully in 2021. The administering authority and LPPA continue to promote the use of Member Self Service to reduce printing and postage costs.

Over the past 5 years' trends on the key activities within the administration team are detailed below.

Service Item	2021/22 Cases	2020/21 Cases	2019/20 Cases	2018/19 Cases	2017/18 Cases
Retirements processed	446	529	533	512	257
Early retirement estimates processed	468	452	580	543	*Not Available
Notification of Deferred Benefits	798	726	727	947	241
Transfers In Actuals processed	161	129	87	27	45
Transfers Out Actuals processed	130	100	65	40	55
Death notification written out	428	530	273	183	157
New LGPS joiners processed	1,115	977	1,942	1,792	1,093
Refunds	431	443	691	678	113
TV Out & Inter Fund Adjustment (IFA ) Quote	277	225	233	164	*Not Available
TV In & IFA Quote	230	195	276	196	*Not Available
<b>Total Cases per year</b>	<b>4,484</b>	<b>4,305</b>	<b>5,407</b>	<b>5,082</b>	<b>1,961</b>

### Staff Resource

Since November 2017 the Pensions Administration service has been provided by LPPA, prior to this date it was part of oneSource Exchequer and Transactional Services. To ensure the effective delivery of the contract a Pensions Projects and Contracts Manager has been appointed from 1 November 2017.

LPPA currently has 6.07 FTE working on Havering administration, including case workers, help desk and data team staff, with a ratio of 1 member of staff to 3,280 (3,721 2020/21) fund members. The team completed a total of 6,342 (6,834 2020/21) cases including other contractual cases outside of the top 10 for the period 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2022 which is an average of 1,044 (1,306 2020/21) cases per staff member

## Local Government Funding Cuts

All local authorities are under pressure to make significant financial savings. Several areas of the Authority have been reviewed and restructured. This impacts on the Pension section in two ways: -

- High demand from employees for information and guidance in respect of their pension benefits should they decide to retire earlier than they initially planned or be made redundant.
- High demand from service areas for Redundancy and Early Retirement Estimates as well as guidance in the options available.

The Authority continues to look at different ways of delivering services which impacts upon the Pension Administration Service. Demand for pension guidance for managers and employees working in areas that may be subject to change continues to escalate

## Academies and Outsourcing

There were no academy conversions during 2021/22. Academies need continual support and monitoring.

LPPA were responsible for all aspects of employer risk, on-boarding and cessation work until 31/03/2021. Since 01/04/2021, the function has been provided by the in house Havering pensions administration team with processes in place to ensure admission agreements and bonds are in place for the service providers. The level of planned and actual outsourcing by Academies is still on-going and likely to continue to grow. If the outsourced function is granted Admitted Body Status this drives further unplanned work to separate out the scheme employers and causes a further administrative burden as the number of scheme employers increases.

The growth in Scheduled and Admitted Body scheme employers also increases the support and communications requirements for LPPA and the Havering pensions administration team. Introduction meetings are offered to all new bodies to support their entry into the scheme with on-going meetings and support as and when required.

To support employers and services the Fund has produced an **Employer Outsourcing Guide**, this provides an overview of the pension implications and the procedures to follow when LGPS scheme employers outsource services from the organisation. This document is available on the [havering.gov.uk](http://havering.gov.uk) website [outsourcing guide](#) or on request.

Unit costs per member	2021/22	2020/21	2019/20	2018/19	2017/18
<b>Investment Management Expenses</b>					
Total Cost (£'000)	4,241	3,412	*3,192	4,303	3,346
Total membership (no's)	19,912	18,858	19,076	19,734	19,193
Cost per member (£)	212.99	180.93	167.33	218.05	174.33
<b>Administration</b>					
Total Cost (£'000)	709	601	**315	***653	532
Total membership (no's)	19,912	18,858	19,076	19,734	19,193
Cost per member (£)	35.61	31.86	16.51	33.09	27.72
<b>Oversight and Governance Costs</b>					
Total Cost (£'000)	524	415	468	419	426
Total membership (no's)	19,912	18,858	19,076	19,734	19,193
Cost per member (£)	26.32	22.00	24.53	21.23	22.20
<b>Total cost per member</b>	<b>274.91</b>	<b>234.80</b>	<b>208.37</b>	<b>272.37</b>	<b>224.25</b>

\*2019/20 figure includes incorrect inclusion of transaction costs

\*\* Includes an incorrect un-cleared sundry creditor from 2018/19.

\*\*\*Includes an incorrect sundry creditor

## Confidentiality of Personal Data

LPPA has developed a robust control framework to help ensure that all the requirements of the GDPR are met in a timely manner and which will also serve as a defence in the event of litigation. LPPA became fully GDPR compliant ahead of the 25th of May 2018 deadline and provided all clients and employers with the relevant paperwork to aid their own compliance.

LPPA also aim to adhere to a code of conduct which would bring the additional benefit of:

- improving transparency and accountability - enabling individuals to distinguish the organisations that meet the requirements of the law and they can trust with their personal data
- providing mitigation against enforcement action
- improving standards by establishing best practice
- investigate innovative solutions to high risk areas including data minimisation and pseudonymisation

## Accuracy of Data

Each year, following year-end processing, LPPA raise queries with Havering Scheme Employers such as missing joiners, leavers, change of hours and pay queries. In most instances the queries are reducing year on year and they continue to identify errors and educate employers. LPPA have improved their templates and literature, following feedback from employers, to ensure the data supplied by Havering employers is accurate with an aim to improve the overall data quality position.

During 2021/22, LPPA tracked the TPR scores on a quarterly basis. They continue to develop an ongoing program of work to maintain/improve data scores to above the targets outlined below.

London Borough of Havering	Target	Q4 2021/22	Q4 2020/21	Trend
	%	%	%	%
Common data score	95.0	98.8	97.0	1.8%
Conditional data score	90.0	94.4	93.0	1.4%

## Fund Membership Data

The membership of the Fund over the last five years is as follows:

	As at 31 March 2022	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019	As at 31 March 2018
Contributors	6,675	6,426	6,492	6,717	6,562
Deferred pensioners	6,689	6,020	6,174	6,544	6,384
Pensioners and Dependants	6,548	6,412	6,410	6,473	6,247
	<b>19,912</b>	<b>18,858</b>	<b>19,076</b>	<b>19,734</b>	<b>18,193</b>

A contributing factor to the decrease in membership numbers for the year to 31 March 21 relates to the transfer out of Havering Sixth Form College and the Havering College of Further & Higher Education.

Those pensioners in receipt of enhanced benefits over the same five year period are as follows:

	As at 31 March 2022	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019	As at 31 March 2018
Ill Health	5	5	3	7	3
Early Retirements	0	0	0	0	0

The age profile of members within five year bandings for the year ended 31 March 2022 is as follows:

<b>AGE BANDS</b>	<b>ACTIVES</b>	<b>DEFERREDS</b>	<b>PENSIONERS (OWN RIGHT)</b>	<b>DEPENDANT PENSIONS</b>	<b>TOTAL BY AGE BAND</b>
5-9	0	0	0	6	<b>6</b>
10-14	0	0	0	9	<b>9</b>
15-19	16	0	0	10	<b>26</b>
20-24	215	79	0	14	<b>308</b>
25-29	316	246	0	1	<b>563</b>
30-34	458	486	0	1	<b>945</b>
35-39	653	606	0	3	<b>1,262</b>
40-44	885	721	2	1	<b>1,609</b>
45-49	971	960	7	9	<b>1,947</b>
50-54	1,127	1,323	7	22	<b>2,479</b>
55-59	1,102	1,419	189	32	<b>2,742</b>
60-64	712	659	779	50	<b>2,200</b>
65-69	174	160	1,323	76	<b>1,733</b>
70-74	45	27	1,255	106	<b>1,433</b>
75-79	1	2	955	140	<b>1,098</b>
80-84	0	1	561	149	<b>711</b>
85-89	0	0	358	143	<b>501</b>
90-94	0	0	182	92	<b>274</b>
95-99	0	0	41	20	<b>61</b>
100+	0	0	4	1	<b>5</b>
<b>TOTAL</b>	<b>6,675</b>	<b>6,689</b>	<b>5,663</b>	<b>885</b>	<b>19,912</b>

# Actuarial Report

London Borough of Havering Pension Fund (“the Fund”)

Actuarial Statement for 2021/22

This statement has been prepared in accordance with Regulations 57(1) (d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

## Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated December 2019. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members’/dependants’ benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

## Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund’s assets, which at 31 March 2019 were valued at £733 million, were sufficient to meet 70% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £320 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and likelihood measure as per the FSS. Individual employers’ contributions for the period 1 April 2020 to 31 March 2022 were set in accordance with the Fund’s funding policy as set out in its FSS.

## Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

## Method

The liabilities were assessed using an accrued benefits method, which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	3.3%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model with an allowance for smoothing of recent mortality experience and long term rates of 1.25% p.a for males and females. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.6 years	23.7 years
Future Pensioners*	22.4 years	25.2 years

\*Aged 45 at the 2019 valuation

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

## Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better than that reported at the previous formal valuations as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is as at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise

Steven Law FFA

For and on behalf of Hymans Robertson LLP

30 April 2021

## PENSION FUND - FUNDING

Details about the financial assumptions used by the Actuary can be found within the Valuation Report 2019, which is available by selecting the link here [Havering Pension Fund](#).

The Fund's Actuary (Hymans Robertson) carried out a triennial valuation during 2019/20 based on data as at 31 March 2019. The main purpose of the valuation is to calculate the funding position within the Fund and set employer contribution rates for the following three years and the results of the 2019 effecting employer contribution rates from 1 April 2020.

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

A comparison of funding levels can be seen below:

### Summary

Ongoing funding basis	31 Mar 2013	31 Mar 2016	31 Mar 2019	30 Sep 2020
	£m	£m	£m	£m
Assets	461	573	733	795
Liabilities	752	857	1,054	1,168
<b>Surplus/(deficit)</b>	<b>(291)</b>	<b>(284)</b>	<b>(321)</b>	<b>(373)</b>
Funding level	61.2%	66.8%	70.0%	68.1%

The improvement in funding position is mainly due to strong investment performance over the periods. The next valuation will be based on data as at 31 March 2022.

Since the 2019 valuation, the funding level is relatively unchanged. However, this masks the volatility that occurred in the year because of COVID-19 and the subsequent rally in markets since.

Having reviewed the funding position as at September 2020, no actions were required to change the current funding plan. Employer contributions will be reviewed at the next valuation, based on data as at 31 March 2022.

The Fund monitors each employer's ill health experience on an on-going basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance, the employer will be charged additional contributions.

Employer decisions on the application of discretions can give rise to strain costs being payable by the employer to the Pension Fund. Strain costs are the capitalised financial value of the impact on the Fund when a member draws their pension benefits before their Normal or State Pension Age (for whatever reason). Factors that influence the strain costs are the member's age, length of service, gender and marital status. The impact on the Fund is the loss of future contribution streams from the employee and the member, and paying out benefits earlier than anticipated.

Generally, where a strain cost arises due to an employer decision, such as waiving actuarial reductions or sharing the cost of buying additional pension, the strain costs will be met by the employer and not the Pension Fund. This is monitored and reconciled to data issued by the pension administration section to ensure appropriate strain costs are paid into the Fund.

## GOVERNMENT ACTUARY DEPARTMENT (GAD) – SECTION 13 PUBLIC SERVICES PENSIONS ACT 2013

GAD was appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the 91 funds in the Local Government Pension Scheme in England and Wales ('LGPS' or 'the Scheme'). Two formal reports have been issued, the first based on the results the 2016 Valuation, the second based on the results of the 2019 Valuation.

Section 13 (4) requires GAD to report on whether four main aims had been achieved, using a variety of measures within the following categories:

- a. **Compliance** – to confirm the actuarial valuations has been carried out in accordance with the scheme regulations.
- b. **Consistency** – to confirm the actuarial valuation has been carried out in a way that is not inconsistent with other valuations.
- c. **Solvency** – to confirm employer contributions is set at an appropriate level to ensure the solvency of the pension fund, and
- d. **Long Term cost efficiency** – to confirm employer contributions are set at a level to ensure, over the long term, that they meet current benefit accruals and include an adjustment to the rate for any surplus or deficit.

The 2016 report, published in October 2018, Havering Fund received an amber flag against the Solvency measure (item c above). This measure highlights possible risks to a fund because of assets being significantly lower than liabilities, where liabilities are those estimated on the SAB standard basis. A fund in deficit may need to pay additional contributions in order to meet the liabilities that have already been accrued.

An amber flag is a potential issue that has been recognised but in isolation would not contribute to a recommendation for remedial action.

The 2019 report, published in November 2021, Havering Fund received three "white flags" under the following categories:

### **Long term cost Efficiency:**

1. One for being in the bottom 5 for funding level
2. One for having a deficit recovery period greater than 10 years

### **Solvency**

3. One for return scope (leaning heavier on investment returns in the funding plan compared to others). An improvement to the amber flag received in the 2016 report.

White flags indicate where GAD is highlighting something but doesn't have any broader concerns around funding plans. No amber flags this time so an improvement on the 2016 outcomes.

Our actuary has carried out extensive testing of our funding plans and is comfortable our investment and contribution strategies are robust and fit for purpose.

# Governance

## GOVERNANCE ARRANGEMENTS

Investment strategy and performance monitoring of the Fund is a matter for the Committee which obtains and considers advice from the Authority and oneSource officers, and as necessary from the Fund's appointed professional adviser, actuary and performance measurers who attend meetings as and when required.

The Pensions and Treasury team within the OneSource Finance service ensures that members of the Committee receive advice on investment strategy and monitoring of the managers. The team also reviews management arrangements and other issues as appropriate, as well as accounting for the activities of the Fund.

The membership of the Pensions Committee has voting rights and reflects the political balance of the Council and following the Local Elections held in May 2022 the structure of the Committee is as follows:

### Labour Group



Cllr Mandy  
Anderson (Chair)



Cllr Matthew  
Stanton

### Conservative Group:



Cllr Robert  
Benham



Cllr Dilip  
Patel



Cllr Viddy  
Persuad

### Havering Residents' Group



Cllr Julie  
Wilkes



Cllr Philip  
Ruck (Vice chair)

**Other Members**

Trade Union Observers x2 (Non-voting) – Derek Scott (Unison), (Vacant)  
Admitted/Scheduled Body Representative x 1(voting) (Vacant)

Committee membership between May 2018 to 31 March 2022, covering the period up to the year ending 31 March 2022 were as follows:

**Conservative Group:**

Cllr John Crowder (Chair)  
Cllr Osman Dervish (From May 2019)  
Cllr Jason Frost (From May 2019)

**Residents Group**

Cllr Stephanie Nunn

**North Havering Residents' Group**

Cllr Martin Goode (Vice Chair March 2019)

**Upminster & Cranham Residents' Group**

Councillor Ron Ower

**Labour Group**

Keith Darvill (May 19)

**Other**

Union Members (Non-voting) – Derek Scott (Unison), Andy Hampshire (GMB)  
Admitted/Scheduled Body Representative (voting) (currently vacant)

The terms of reference for the Committee are:

- To consider and agree the ISS for the Pension Fund and subsequently monitor and review performance
- Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
- To appoint and review the performance of advisers and investment managers for pension fund investments
- To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7, 12 or 24 of the Superannuation Act 1972.

In line with the Public Service Pensions Act 2013, a Local Pension Board (“the Board”) has been established and its role is as follows:

- Assist the Administering Authority as Scheme Manager; –
  - to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
  - to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
  - in such other matters as the LGPS regulations may specify
- Secure the effective and efficient governance and administration of the LGPS for the Fund
- Provide the Scheme Manager with such information as it requires to ensure that any member of the Board or person to be appointed to the Board does not have a conflict of interest.

The Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Board will also help ensure that the Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively.

The Board's membership was reviewed during 2021 and the Terms of reference updated to reflect an increase from four to six representatives with the addition of an independent Chair.

The Board consists of 3 Scheme employer representatives and 3 scheme member representatives. The role of Chair is currently filled by one of the employer representatives whilst recruitment for an independent Chair is undertaken.

**Employer representatives:**

Denise Broom – Life Academy Trust (from December 18)

Andrew Frater – Empower Learning Academy Trust - Hall Mead School (from January 2020)

Joanne Sladen - Hornchurch Academy Trust (from May 2022)

**Scheme Member representatives:**

Mr Mark Holder

Yasmin Ramjohn (from February 2022)

Dionne Weekes (from February 2022)

Mrs Anne Giles (resigned July 2021)

**Independent Chair:**

**Vacant**

**The Local Pension Board produces a separate annual report and this available on the Authority's website by selecting the link here [LGPS Pension Administration | The London Borough Of Havering](#)**

## GOVERNANCE COMPLIANCE STATEMENT

Under Regulation 55 of the LGPS Regulations 2013, administering authorities are required to prepare, publish and maintain statements of compliance against a set of best practice principles on scheme governance and stewardship.

- (1) An administering authority must prepare a written statement setting out —
  - (a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
  - (b) if the authority does so:
    - (i) the terms, structure and operational procedures of the delegation,
    - (ii) the frequency of any committee or sub-committee meetings,
    - (iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
  - (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
  - (d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).
- (2) An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph.
- (3) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.
- (4) An administering authority must publish its statement under this regulation, and any revised statement.

Under Regulation 106 of the Local Government Pension Scheme (LGPS) (Amendment) (Governance) Regulations 2015 required Administering Authorities to establish a Local Pension Board (LPB) by no later than 1 April 2015.

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

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

The Governance Compliance Statement was last updated in November 2019 to reflect changes to membership of the Committee. No changes were required in subsequent annual reviews.

The Governance Compliance statement includes:

- Structure and the role of members for the Pensions Committee and the LPB
- Membership and Representation of the Pensions Committee and the LPB
- Guidance and monitoring, the support and advice available to the Pensions Committee and the LPB
- Reimbursement for the Pensions Committee and the LPB members
- Training
- Frequency of meetings
- Scope, looking beyond pensions administration and understanding the key risks
- Access and Publication of agenda and minutes of all non-restricted meetings
- Reviewing and Updating of policies
- Compliance to guidance given by Secretary of State

The compliance principles are not mandatory but suggested best practice; however, the Fund must explain the reasons for non-compliance, if applicable, in the statement.

This statement can be found in the appendices at the back of the report.

The Governance Compliance statement is also available on the Authority's website by selecting the link here [Havering Pension Fund](#).

In line with guidance published by the then Shadow Scheme Advisory Board the Local Pension Board will publish its own separate Annual Report, similar in nature to this report as published by the Committee.

Maintaining expertise, experience and knowledge is a key focus for the committee in order to meet the "qualitative test" under **Markets in Financial Instrument Directive (MiFID 11)**. Firms will undertake an assessment of the **expertise, experience and knowledge** of the local authority and its pension fund committee in order to be reasonably assured that they are capable of making their own investment decisions and have an understanding of the risks involved before a firm will permit election to professional status. All requests for election have been granted for existing investment service providers.

## **TRAINING AND DEVELOPMENT STRATEGY**

The Pensions Regulator Code of Practice which came into force on 1 April 2015 includes a requirement for members of the Pension Committee/Local Pension Board (LPB) to demonstrate that they have an appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Committee/LPB.

LGPS (Amendment) (Governance) Regulations 2015 states that Administering Authority must have regard to guidance issued by the Secretary of State. Guidance was issued by the then Shadow Scheme Advisory Board in January 2015 and states that the Administering Authority should make appropriate training available to assist LPB members in undertaking their role. It was always the plan to adopt a training strategy that will incorporate Pension Committee member training with LPB members to keep officer time and training costs to a minimum.

A joint training strategy has been developed and formally sets out the arrangements the Fund will take in order to comply with the principles of the CIPFA Code of Practice. The Fund will review whether a new training policy will be required in preparation for the new Pensions Regulator Code of Practice and the possible introduction of the Good Governance report.

The Pension Committee fully supports the intentions behind CIPFA's Knowledge and Skills Code of Practice and has agreed to formally adopt its principles. CIPFA's Knowledge and Skills Framework was updated in 2021 and covers eight core technical areas where appropriate knowledge and skills should be achieved and maintained. They are:

1. Pensions Legislation and Guidance.
2. Pension's governance.
3. Funding strategy and actuarial methods.
4. Pensions administration and communications
5. Pensions financial strategy, management, accounting, reporting and audit standards.
6. Investment strategy, asset allocation, pooling, performance and risk management
7. Financial markets and products
8. Pension services procurement, contract management and relationship management

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

The London Borough of Havering, as an Administering Authority of the LGPS, recognises the importance of ensuring that it has the necessary resources to discharge its pensions administration responsibilities and that all staff and members charged with financial administration, governance and decision making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

It therefore seeks to utilise individuals who are both capable and experienced and it will provide and/or arrange training for staff and members of the pensions decision making and governance bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

As the majority of training and development is cyclical in nature, spanning the four-year membership of the committee, the Authority's Constitution recommends that the membership of the committee remains static for the life of the Authority unless exceptional circumstances require a change, for the very reason that Members need to ensure that expertise is developed and maintained within the Committee.

In recognition of the importance of member training in pension matters the Authority's Constitution was amended in March 2012 to reflect that if members do not undertake required training then that member may not partake in the decision making process.

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

### **Provision of Training**

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

Associated training and development will be given when required which is linked to the Pension Fund meeting cyclical coverage.

In addition to the cyclical training and development that the Committee will have over the lifetime of their membership, training will be provided in the areas where it has been specifically requested or has been identified as required. Special pension committee meetings will be arranged from time to time to discuss matters that fall outside of the cyclical meetings.

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

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

The London CIV runs periodic seminars to aid Officer and Committee members' development.

The Fund is a member of the CIPFA Pensions Network, which gives access to an extensive programme of events, training/workshops, weekly newsletters and documentation, including briefing notes on the latest topical issues.

The Fund encourages use of the three-day training courses offered by Local Government Employers (LGE), that is specially targeted at elected members with Pension Fund responsibilities. All new members are encouraged and given the opportunity to attend.

The Head of Pensions and Treasury, Pension Fund Manager (Finance) and/or the Pension Fund Accountant and the Pensions Projects and Contracts Manager attend quarterly forum meetings with peers from other London Boroughs which gives access to extensive opportunities of knowledge sharing and benchmarking data.

Officers within oneSource Pensions teams also benefit from sharing of best practice across its partner authorities.

Officer training and personal development is monitored through the Authority's internal appraisal process.

Training logs are maintained and cover the period since the election in May 2018 to 31 March 2022 to demonstrate continuous development and training during their full term of elected office on the Pensions Committee. Attendance and coverage is summarised in the following table:

**PENSIONS COMMITTEE MEMBER TRAINING (Election May 2018 – 31 March 2022)**

<b>DATE</b>	<b>TOPIC COVERED</b>	<b>LOCATION</b>	<b>KSF</b>	<b>COST</b>	<b>ATTENDED BY</b>
<b>3 July 2018</b>	Peter Worth – Understanding the role of the Pensions Committee	Town Hall	KSF 1	Paid for by OneSource – to be recharged to Havering	Cllr John Crowder (Chair) Cllr Melvin Wallace (Vice-Chair) Cllr Roger Ramsey Cllr Martin Goode (also Chair Audit cttee) Cllr Ron Ower Cllr Matt Sutton (also Vice-Chair Audit cttee)
<b>24 July 2018</b>	Officer - New Councillor Induction • plus Hymans “A brief Guide to the LGPS’	Town Hall	ALL	Officer Time	Cllr Ray Morgon Cllr Ron Ower
<b>24 July 2018</b>	Officer - New Councillor Induction – • distribution of slides only	Town Hall	ALL	Officer Time	Cllr Matt Sutton Cllr Martin Goode
<b>24 July 2018</b>	Officers - Pension Fund Accounts 17/18 Briefing covered:  • Overview of the Pension Fund Accounts	Town Hall – prior to Pensions Committee meeting	KSF 2	Officer Time	Cllr John Crowder (chair) Cllr Melvin Wallace (vice- chair) Cllr Martin Goode Cllr Ron Ower Cllr Ray Morgon Cllr Jan Sargent Cllr Gerry O’Sullivan Cllr David Durrant Cllr Viddy Persuad (part)

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
20 August 2018	<p>Hymans – Direct Corporate Lending, covered:</p> <ul style="list-style-type: none"> <li>• What is Direct Corporate Lending</li> <li>• Why we are investing in this asset class</li> <li>• How to get exposure</li> </ul> <p>bFinance - covered the manager selection process</p>	Town Hall – Prior to Special Pensions Committee meeting	KSF 3 KSF 5	Part of contract	Cllr John Crowder (chair) Cllr Melvin Wallace (vice-chair) Andy Hampshire (GMB union-employee rep)
15 November 2018	<p>SPS Conferences Local Authority - Pension Fund Investment Strategies:</p> <ul style="list-style-type: none"> <li>• Topical Issues</li> <li>• Income from Property &amp; Infrastructure- planning for cash flow negativity</li> <li>• Management of Assets – improving cost transparency</li> <li>• LGPS Perspectives -current issues</li> </ul>	Le Meridien Hotel, Piccadilly, W1	KSF 5	Free	Cllr Stephanie Nunn
11 December 2018	Officer - New Councillor Induction	Library	ALL	Officer Time	Cllr David Durant
11 December 2018	<p>Hymans-ESG: Introductory Training:</p> <ul style="list-style-type: none"> <li>• Introduction</li> <li>• Regulation</li> <li>• Application and Action</li> <li>• Next steps: establishing a set of beliefs</li> </ul>	Town Hall – Prior to Pensions Committee meeting	KSF 1 KSF 4 KSF 5	£1,500	Cllr John Crowder (chair) Cllr Melvin Wallace (vice- chair) Cllr Ron Ower Cllr Stephanie Nunn Cllr David Durrant Cllr Matt Sutton (part)

<b>DATE</b>	<b>TOPIC COVERED</b>	<b>LOCATION</b>	<b>KSF</b>	<b>COST</b>	<b>ATTENDED BY</b>
<b>9 July 2019</b>	Officer – New Councillor Induction	Town Hall	ALL	Officer time	Cllr J Frost
<b>11 July 2019</b>	Officer – New Councillor Induction	Town All	ALL	Officer time	Cllr K Darvill
<b>11 July 2019</b>	Hymans - Managing Currency Risk	Town Hall	KSF 3 KSF 4 KSF 5	Hymans Fee	Cllr M Goode Cllr S Nunn Cllr R Ower Cllr J Frost Cllr J Crowder
<b>18 July 2019</b>	Officers - Pension Fund Accounts 18/19 Briefing covered: Overview of the Pension Fund Accounts	Town Hall	KSF 2	Officer Time	Cllr M Goode Cllr R Ower Cllr O Dervish Cllr V Persaud (Audit)
<b>23 July 2019</b>	Hymans - Managing Currency Risk – training slides distributed for non- attendees on 11 July 2019		KSF 4 KSF 5	Officer Time	Slides Distributed to Cllr K Darvill Cllr O Dervish Andy Hampshire (GMB rep)
<b>23 July 2019</b>	Officer – New Councillor Induction	Town Hall – EF14	All	Officer Time	Cllr O Dervish
<b>16 September 2019</b>	Officer –Induction training	LBH Offices	ALL	Officer time	Derek Scott (UNISON Rep)

<b>DATE</b>	<b>TOPIC COVERED</b>	<b>LOCATION</b>	<b>KSF</b>	<b>COST</b>	<b>ATTENDED BY</b>
<b>17 September 2019</b>	Hymans – Multi Asset Credit: <ul style="list-style-type: none"> <li>• Debt markets overview</li> <li>• What is Multi Asset Credit (MAC)</li> <li>• Absolute Return Bonds (ARB)</li> <li>• Current Yields</li> <li>• Comparison of MAC vs ARB</li> </ul>	Town Hall - As part of the Pensions committee meeting	KSF 3 KSF 4 KSF 5	Hymans Fees	Cllr J Crowder Cllr M Goode Cllr O Dervish Cllr J Frost Cllr R Ower Cllr K Darvill
<b>24 October 2019</b>	Officer – New Councillor (sub) Induction	LBH Offices	ALL	Officer Time	Cllr L Van den Hende
<b>12 November 2019</b>	A Guide to the LGPS –sent via email	LBH Offices	ALL	Officer Time	Cllr J Crowder Cllr M Goode Cllr O Dervish Cllr J Frost Cllr R Ower Cllr S Nunn Cllr K Darvill 2 nominated substitutes: Cllr R Morgan Cllr L Van den Hende
<b>13 November 2019</b>	CIPFA – Annual Pensions Conference	The London Stock Exchange	ALL	Free Place	Cllr J Crowder
<b>10 December 2019</b>	Hymans Valuation 2019 training presentation	LBH Offices	KSF 6	Hymans Fee	Cllr J Crowder Cllr D O'Flynn (sub) Cllr S Nunn Cllr K Darvill
<b>1 October 2020</b>	Hymans - Introduction to Multi Factor Investment: <ul style="list-style-type: none"> <li>• Importance of considering Multi Factor exposure</li> <li>• Benefits of Multi Factor diversification</li> </ul>	As part of the Pensions committee meeting	KSF 4 KSF 5	Hymans Fee	Cllr J Crowder Cllr S Nunn Cllr M Goode Cllr K Darvill Cllr P Crowder (sub for Cllr Dervish) Cllr J Frost

<b>DATE</b>	<b>TOPIC COVERED</b>	<b>LOCATION</b>	<b>KSF</b>	<b>COST</b>	<b>ATTENDED BY</b>
<b>26 November 2020</b>	Hymans/LGIM – Multi Factor Investing <ul style="list-style-type: none"> <li>• What is multi factor investing</li> <li>• Different factors explained</li> <li>• LGIM Future World offering – explanation of portfolio</li> <li>• Blended factors vs market cap</li> <li>• How the climate tilt is applied</li> </ul>	As part of the Pensions committee meeting	KSF 4 KSF 5	Free	Cllr John Crowder Cllr Jason Frost Cllr R Ower Cllr M Goode
<b>26 January 2021</b>	LGA LGPS Update <ul style="list-style-type: none"> <li>• COVID resilience</li> <li>• Good governance</li> <li>• Responsible investment reporting</li> </ul>	Webinar	KSF1 KSF4 KSF5	Free	Cllr Keith Darvill Cllr Ron Ower Derek Scott (UNISON Rep)
<b>26 January 2021</b>	Hymans briefing report circulated to all members: <ul style="list-style-type: none"> <li>• Tackling Climate Change and related financial risks</li> <li>• TCFD framework awareness</li> </ul>	Sent via Email from The Pensions Manager 21.01.21	KSF1 KSF5	Hymans Fee	Cllr John Crowder Cllr Jason Frost Cllr Ron Ower Cllr M Goode Cllr S Nunn Cllr O Dervish Derek Scott Andrew Hampshire
<b>04 February 2021</b>	LAPF Strategic Investment Forum	Webinar	KSF1 KSF3 KSF4 KSF5	Free	Cllr S Nunn
<b>27 April 2021</b>	A Brief Guide to the LGPS 2021 (Hymans Robertson- and link to on line learning tool)	Sent via Email from the Pensions Manager 27/04/21	KSF 1-6	Free	Cllr Frost Cllr Crowder Cllr Darvill Cllr Goode Cllr Dervish Cllr Ower Cllr Nunn Derek Scott

<b>12 October 21</b> <b>9 November 21</b> <b>2 December 21</b>	LGA Fundamentals 3 day event	Virtual	KSF 1-6	£660.00	Derek Scott
<b>24 November 2022</b>	Hymans Robertson - Climate Risk Workshop <ul style="list-style-type: none"> <li>• Why climate change matters for pension funds</li> <li>• Introduction to TCFD</li> <li>• Current position</li> <li>• What LCIV has done</li> </ul> Overview of Metrics & Targets	Virtual	KSF 4 KSF 5	Part of the Contract	Cllr Crowder Cllr Ower Derek Scott

## Attendance at Pensions Committee meetings:

All of the Pensions Committee agendas and minutes can be found on the Authority's website by selecting the link here [Havering - Committee details - Pensions Committee](#)

The Committee met a number of times during 2021/22 and the report coverage and attendance at those meetings are shown in the following table:

On 11 March 2020 the World Health Organisation (WHO) declared a COVID-19 pandemic. This caused a world-wide public health emergency. Legislation permitting on line council meetings due to COVID lapsed on the 6 May 2021, therefore during 2021/22 committee members attended meetings in person with officers and other presenters attending virtually.

DATE	TOPIC	ATTENDED BY
20 July 2021	<ul style="list-style-type: none"><li>Noted Pension Fund Performance Monitoring for the quarter ending 31 March 2021, received presentations from one of the Funds Private Debt Managers Churchill Nuveen.</li><li>Noted Pension Fund Accounts for the year ending 31 March 2021.</li><li>Agreed the Business Plan/Annual Report on the work of the Pensions Committee 2020/21</li><li>Agreed further execution in the progression of investment strategy implementation. Decisions covered switch to LGIM Future world Fund and further next vintage allocations to the Churchill and Permira mandates.</li></ul>	Cllr Martin Goode (chair) Cllr Jason Frost Cllr Robby Misir (sub for Cllr Dervish) Cllr Matt Sutton (sub for Cllr John Crowder) Cllr Stephanie Nunn Cllr Ron Ower
12 September 2021	<ul style="list-style-type: none"><li>Noted Pension Fund Performance Monitoring for the quarter ending 30 June 2021, received presentations from the funds Passive Equity Manager – Legal and General Investment Management LGIM)</li><li>Agreed the Pension Fund Annual Report for the year ending 31 March 2021.</li><li>Agreed further execution in the progression of investment strategy implementation. Decision covered investment to the LCIV Passive Equity Progressive Paris Aligned Fund (PEPPA).</li><li>Agreed the Pension Fund Pensions Administration Strategy.</li><li>Agreed the Pension Fund Charging Policy</li><li>Agreed the Pension Fund Data Improvement Plan</li></ul>	Cllr John Crowder (chair) Cllr Martin Goode (vice chair) Cllr Jason Frost Cllr Ron Ower
09 November 2021	<ul style="list-style-type: none"><li>Noted the views of officers on the performance of the Fund's Custodian for the period to September 2021.</li><li>Noted the views of officers on the performance of the Fund's Actuary for the period to September 2021.</li><li>Noted the views of officers on the performance of the Fund's Investment Advisor for the period to September 2021.</li></ul>	Cllr Jason Frost (Chair) Cllr Stephanie Nunn Cllr Ron Ower Cllr Keith Darvill (part)

DATE	TOPIC	ATTENDED BY
	<ul style="list-style-type: none"> <li>Noted results of the Whistle Blowing Annual review</li> <li>Agreed the updated Pension Fund Risk Register</li> <li>Agreed the Pension Fund Communications Strategy for the three years to November 2024</li> <li>Agreed the continuation of the Policy for the overpayment of pension following death of a member.</li> <li>Noted the Local Pension Board Annual Report for 2020/21</li> </ul>	
<b>25 January 2022 (rescheduled from 07 Dec 2021)</b>	<ul style="list-style-type: none"> <li>Noted the Pension Fund Performance Monitoring for the quarter ending 30 September 2021, received presentations from the Fund's Private Debt Manager Permira.</li> <li>Noted the review of Fund Manager Voting and Engagement activity</li> </ul>	Cllr John Crowder (chair) Cllr Martin Goode (vice chair) Cllr Osman Dervish Cllr Jason Frost Cllr Stephanie Nunn Cllr Ron Ower
<b>15 March 2022</b>	<ul style="list-style-type: none"> <li>Pension Fund Performance Monitoring for the quarter ending 31 December 2021, received presentation form the Funds Bonds Manager Royal London.</li> <li>Agreed the Business Plan/Annual Report on the work of the Pensions Committee 2021/22</li> <li>Noted the outcomes of the Government Actuary Departments Section 13 report, based on 2019 valuations</li> </ul>	Cllr John Crowder (chair) Cllr Martin Goode (vice chair) Cllr Osman Dervish Cllr Stephanie Nunn Cllr Ron Ower

The Havering Pension Fund adopts a Business Plan/Report on the work of the Pensions Committee which sets out the work undertaken by the Committee during 2021/22 and the plan of work for the following year (2022/23) and beyond. This also includes a Training and Development Plan which is linked to the Pension Fund coverage of meetings.

Full coverage of the Committee work and training plan can be found on the Authority's website by selecting the link here [Havering Pension Fund - Business Plan](#).

#### **CONFLICT OF INTEREST**

At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. During 2021/22 there were no conflicts of interests declared.

# Fund Account, Net Asset Statement

Pension Fund Account for the year ended 31 March 2022

2020/21 £000	Notes	2021/22 £000
	<b>Dealings with members, employers and others directly involved in the fund</b>	
47,418	Contributions receivable 7	49,112
4,896	Transfers in from other pension funds 8	4,204
52,314		53,316
(38,804)	Benefits 9	(37,551)
(44,630)	Payments to and on account of leavers 10	(4,618)
(83,434)		(42,169)
(31,120)	Net additions (withdrawals) from dealings with members	11,147
(4,428)	Management expenses 11	(5,474)
(35,548)	<b>Net additions/(withdrawals) including fund management expenses</b>	<b>5,673</b>
	<b>Returns on investments</b>	
15,539	Investment income 12	14,977
-	Taxes on Income 13	-
165,548	Profit and losses on disposal of investments and changes in the market value of investments 14a	25,198
181,087	<b>Net returns on investments</b>	<b>40,175</b>
145,539	<b>Net increase (decrease) in the net assets available for benefits during the year</b>	<b>45,848</b>
728,696	Opening net assets of the Fund at start of year	874,235
874,235	<b>Closing net assets of the Fund at end of year</b>	<b>920,083</b>

## Net Asset Statement for the year ended 31 March 2022

2020/21		Notes	2021/22
£000			£000
150	Long Term Investments	14	150
858,410	Investment Assets	14	907,290
(263)	Investment Liabilities	14	(2,220)
<b>858,297</b>	<b>Total net investments</b>		
16,403	Current Assets	21	15,612
(465)	Current Liabilities	22	(749)
<b>874,235</b>	<b>Net assets of the Fund available to fund benefits at end of the reporting period</b>		<b>920,083</b>

The financial statements summarise the transactions of the Fund and the net assets of the Fund. They do not take account of obligations to pay pensions and other benefits which fall due after the financial year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard IAS19 basis is disclosed at Note 19 of these accounts.

### Notes to the Pension Fund

#### 1 Description of the Fund

The Havering Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Havering. Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Statutory Section 151 officer.

The following description of the scheme is a summary only. For more details on the operation of the Pension Fund, reference should be made to the Havering Pension Fund Annual Report 2021/22 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the (LGPS) Regulations.

##### a) General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The LGPS Regulations 2013 (as amended),
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefits scheme, which provides pensions and other benefits for pensionable employees of Havering Council and a range of other scheduled and admitted bodies. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Local Pension Board and the London Borough of Havering Pensions Committee, which is a committee of the Council.

##### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.
- Designated bodies, which are non-community schools, whose employer has changed from the Authority to a Board of Governors. Designated body status allows continued membership in the LGPS for non-teaching staff at non-community schools. These have been accounted for within the London Borough of Havering.

There are 56 employer organisations with active members within the Havering Pension Fund including the Authority.

The membership profile is detailed below.

31 Mar 2021		31 Mar 2022
<b>56</b>	<b>Number of employers with active members</b>	<b>56</b>
	<b>Number of employees in scheme</b>	
4,650	London Borough of Havering	4,783
1,697	Scheduled bodies	1,810
79	Admitted bodies	82
<b>6,426</b>	<b>Total</b>	<b>6,675</b>
	<b>Number of pensioners and dependants</b>	
6,014	London Borough of Havering	6,110
369	Scheduled bodies	406
29	Admitted bodies	32
<b>6,412</b>	<b>Total</b>	<b>6,548</b>
	<b>Deferred pensioners</b>	
5,179	London Borough of Havering	5,680
791	Scheduled bodies	966
50	Admitted bodies	43
<b>6,020</b>	<b>Total</b>	<b>6,689</b>
<b>18,858</b>	<b>Total number of members in pension scheme</b>	<b>19,912</b>

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the year ended 31 March 2022. Employer contributions are set based on triennial actuarial funding valuations. Current employer contribution rates range from 14.2% to 40.8% of pensionable pay.

A secondary contribution rate (previously known as deficit amount or past service adjustment) may also be charged. This rate is either paid as a monetary value or as an additional percentage of pensionable pay. Havering Council pay a monetary value, other employers as a percentage of pensionable pay.

#### d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup>. Accrued pension is adjusted annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirements, disability pensions and death benefits. For more details please refer to the LGPS pension website <https://www.lgpsmember.org/>.

## 2 Basis of Preparation

The Statement of Accounts summarise the Fund's transactions for the 2021/22 financial year and its position at year end as at 31 March 2022. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2020/21* ("the code") which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector, and guidance on Investment Valuations issued by the Pensions Research Accounts Group (PRAG).

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet into the Balance Sheet of Lessees. Implementation of IFRS 16 is not expected to have a material impact on the pension fund because it does not hold any assets as a lessee.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net asset statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Fund has opted to disclose this information in Note 20.

The Administering Authority is satisfied that Havering Pension Fund is a going concern. The one-year return for 2021/2022 of 4.59% and the three-year period since the 2019 valuation of 8.75% is greater than the actuary's long term target return for the Fund of +3.3% pa. The returns over all time periods were ahead of the long term absolute return deemed sufficient to support an affordable and stable level of contributions. The next actuarial valuation is based on data as at 2022, which will include a recovery period necessary to make good any potential increases in the funding deficit. The Fund's cash flow remains robust. The Fund held cash of £32m at the Balance Sheet date, equivalent to 3.6% of the Fund Assets. In addition, the Fund held £714m in Level 1 and Level 2 investment assets, which could be realised within 3 months if required. However, based upon review of its operational cash flow

projections the Fund is satisfied it has sufficient cash to meet its obligations to pay pensions, for at least 12 months from the date of authorisation of these accounts, without the need to sell any of these investments. As such, the accounts have been prepared on a going concern basis.

### **3 Summary of Significant Accounting Policies**

#### **Fund Account – revenue recognition**

##### **(a) Contribution income**

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all that arise according to pensionable pay
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Additional employers' contributions in respect of ill-health and early retirements (augmentation) are accounted for in the year the event rose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

##### **(b) Transfers to and from other schemes**

Transfers in and out relate to members who have either joined or left the fund.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement. The date set for the transfer of assets and liabilities is the date it becomes recognised in the fund account.

##### **(c) Investment Income**

###### ***i) Interest Income***

Interest income is recognised in the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

###### ***ii) Dividend Income***

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

###### ***iii) Distribution from Pooled Funds***

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

###### ***iv) Property - Related Income***

Property related income consists primarily of rental income and is recognised at the date of issue.

###### ***v) Movement in the Net Market Value of Investments***

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

## **Fund Account – Expense Items**

### **(d) Benefits payable**

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities, providing the payment has been approved.

### **(e) Taxation**

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

### **(f) Management Expenses**

The Fund discloses its pension fund management in accordance with the CIPFA guidance "*Accounting for Local Government Pension Scheme Management Expenses (2016)*". All items of expenditure are charged to the fund on an accruals basis as follows

#### **Administrative Expenses**

All staff costs of the pension's administration team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance Council policy and charged as expenses to the Fund.

#### **Oversight and Governance Costs**

All costs associated with oversight and governance are separately identified and recharged to the Fund and charged as expenses to the Fund.

#### **Investment Management Expenses**

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11a and grossed up to increase the change in value of investments.

Fees charged by external investment managers and custodian are set out in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

Officers' time spent on investment management functions are also charged to the Fund.

### **(a) Lifetime Allowances**

Members are entitled to request the Fund pays their tax liabilities due in respect of annual allowance and lifetime allowance in exchange for a reduced pension.

Where the Fund pays members tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

## **Net Assets Statement**

### **(h) Financial Assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the Fund. Any amounts due or payable in respect of trades entered but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 14a.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

### **(i) Foreign Currency Transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

### **(j) Derivatives**

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in the change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

### **(k) Cash and Cash Equivalents**

Cash comprises cash in hand (Fund's Bank Account) and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

### **(l) Financial Liabilities**

A financial liability is recognised in the net asset statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised by the fund account as part of the change in value of investments.

### **(m) Actuarial Present Value of Promised Retirement Benefits**

The actuarial present value of promised benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

**(n) Additional Voluntary Contributions**

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential and Standard Life as their AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors.

AVC's are not included in the accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23)

**(o) Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

**4. Critical Judgements in Applying Accounting Policies**

**Pension Fund Liability**

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates provided to the admitted and scheduled bodies in the Fund, as requested, in the intervening years. The methodology used in the annual updates is in line with accepted guidelines.

This estimate is subject to significant variances based on the changes to the underlying assumptions which are agreed with the actuary and are summarised in Note 19.

Actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short term yield/return.

**5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made.

The items in the net asset statement for which there is significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Effect if Actual Results differ from Assumptions	Approximate monetary amount (£m)
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at	The effects on the present value of promised retirement benefits of changes in actuarial assumptions can be significant. Changes in assumptions could have	

Item	Uncertainties	Effect if Actual Results differ from Assumptions	Approximate monetary amount (£m)
(Note 20)	which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Fund's assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied	the approximate following impacts on the Fund's employer liability as follows: <ul style="list-style-type: none"> <li>0.1% p.a. decrease in the Real Discount rate could result in an increase of 2%</li> <li>0.1% p.a. increase in the Pension Increase Rate could result in an increase of 2%</li> <li>0.1% p.a. increase in Salary Increase Rate (CPI) could result in an increase of 0%</li> <li>1 Year increase in member life expectancy could result in a 4% increase</li> </ul>	29  26  2  60
Level 3 Investments (Note 16a)	Level 3 investments can be determined by Fund Managers in accordance with guidelines and principles set out in the International Private Equity and Venture Capital Valuation Guidelines 2012. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Level 3 investments total £206m, which represents 22% of the total Fund value of £920m.	Sensitivity Analysis shows that the £206m valuation could decrease or increase within the range of £89m and £120m

## 6. Events after the Reporting Date

The Present Value of Promised Retirement Benefits (note 20) includes an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. This estimate was allowed for in the 31 March 2020 IAS26 reporting and is continued to be allowed for within the liabilities this year. There will be changes made to scheme regulations that will remove age discrimination from the LGPS and it is anticipated that these regulations will come into force from 1 April 2023.

The Fund has valued its assets based on the 31 March 2022 position as reported by its investment managers. However, there is uncertainty over asset valuations, in particular for real and private market assets. The Fund believes that these valuations are the most reliable, as there are not alternative reliable estimates given the absence of trading in these asset classes.

Global growth forecasts continued to slide since March 2022 whilst inflation forecasts edged higher as existing inflation and supply chain issues are worsened by the ongoing Russia- Ukraine conflict and Chinese COVID lockdowns. Global Markets remain volatile, it is expected that higher energy and food prices, alongside financial market, and trade disruption to negatively impact global growth going forward. We believe the Fund is well positioned to manage uncertainties created by the invasion and for the purposes of these financial statements this is considered a non- adjusting event.

## 7. Contributions Receivable

### By category

2020/21 £000		2021/22 £000
	<b>Employees' contributions</b>	
	<b>Normal:</b>	
6,268	London Borough of Havering	6,541
1,442	Scheduled Bodies	1,489
73	Admitted Bodies	75
	<b>Additional contributions:</b>	
6	London Borough of Havering	6
<b>7,789</b>	<b>Total Employees' Contribution</b>	<b>8,111</b>
	<b>Employers' contributions</b>	
	<b>Normal:</b>	
14,716	London Borough of Havering	16,341
5,545	Scheduled bodies	5,606
311	Admitted bodies	329
	<b>Deficit funding:</b>	
18,677	London Borough of Havering *	18,302
	<b>Augmentation</b>	
341	London Borough of Havering	344
37	Scheduled bodies	50
2	Admitted Bodies	29
<b>39,629</b>	<b>Total Employers' Contributions</b>	<b>41,001</b>
<b>47,418</b>	<b>Total Contributions Receivable</b>	<b>49,112</b>

\* The 2021/22 figure reflects additional contributions made by the Authority to the Pension Fund: consists of £12.650m secondary contributions and £6.044m voluntary planned contributions.

### By authority

2020/21 £000		2021/22 £000
40,008	London Borough of Havering	41,534
7,024	Scheduled bodies	7,145
386	Admitted Bodies	433
<b>47,418</b>	<b>Total Contributions Receivable</b>	<b>49,112</b>

8. Transfers in from Other Pension Funds

2020/21 £000		2021/22 £000
4,896	Individual transfers	4,204
<b>4,896</b>	<b>Transfers In from Other Pension Funds</b>	<b>4,204</b>

9. Benefits Payable

By category

2020/21 £000		2021/22 £000
	<b>Pensions</b>	
30,798	London Borough of Havering	30,620
1,692	Scheduled Bodies	1,324
881	Admitted Bodies	936
<b>33,371</b>	<b>Pension Total</b>	<b>32,880</b>
	<b>Commutation and Lump Sum Retirements</b>	
3,577	London Borough of Havering	3,609
344	Scheduled Bodies	336
394	Admitted Bodies	-22
<b>4,315</b>	<b>Commutation and Lump Sum Retirements Total</b>	<b>3,923</b>
	<b>Lump Sum Death Benefits</b>	
976	London Borough of Havering	575
110	Scheduled Bodies	173
32	Admitted bodies	-
<b>1,118</b>	<b>Lump Sum Death Benefits Total</b>	<b>748</b>
<b>38,804</b>	<b>Total Benefits Payable</b>	<b>37,551</b>

By authority

2020/21 £000		2021/22 £000
35,351	Havering	34,804
2,146	Scheduled bodies	1,833
1,307	Admitted Bodies	914
<b>38,804</b>	<b>Total Benefits Payable</b>	<b>37,551</b>

#### 10. Payments To and On Account of Leavers

2020/21 £000		2021/22 £000
70	Refunds to members leaving service	81
40,438	Group Transfers*	-
4,122	Individual transfers	4,537
<b>44,630</b>	<b>Payments to and on Account of Leavers</b>	<b>4,618</b>

\* 2020/21 College Transfer Settlement

#### 11. Management Expenses

2020/21 £000		2021/22 £000
601	Administrative Costs	709
3,412	Investment Management Expenses	4,241
398	Oversight and Governance Costs	443
16	Oversight and Governance Costs - External Audit costs	78
1	Local Pension Board	3
<b>4,428</b>	<b>Management Expenses</b>	<b>5,474</b>

This analysis of the costs of managing the Fund during the period has been prepared in accordance with CIPFA guidance.

The investment management expenses above include £0.116m (2020/21 £0.102m) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.097m in respect of transaction costs (2020/21 £0.067m).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 14).

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments.

11a. Investment Management Expenses

2021/22	Management Fees £000	Performance Related Fees £000	Transaction Cost £000	2021/22 Total £000
Bonds	147	-	-	147
Fixed Interest Unit Trust	128	-	-	128
Diversified Growth Funds	598	-	15	613
Infrastructure	598	-	-	598
Global Equity	1,637	-	82	1,719
<b>Other Investments</b>				
Pooled Property	513	117	-	630
Private Equity and Joint Venture	314	-	-	314
Derivatives – Forward Currency Contracts	19	-	-	19
	<b>3,954</b>	<b>117</b>	<b>97</b>	<b>*4,168</b>
Custody Fees				42
Performance Measurement Fees				31
Other Investment Fees				-
<b>Investment Management Expenses</b>				<b>4,241</b>

\*Includes £2.238m charged for assets in the London CIV pool (£2.086m 2020/21)

2020/21	Management Fees £000	Performance Related Fees £000	Transaction Cost £000	2020/21 Total £000
Bonds	162	-	-	162
Fixed Interest Unit Trust	106	-	-	106
Diversified Growth Funds	622	-	15	637
Infrastructure	313	-	-	313
Global Equity	1,445	-	52	1,497
<b>Other Investments</b>				
Pooled Property	304	102	-	406
Private Equity and Joint Venture	190	-	-	190
Derivatives – Forward Currency Contracts	17	-	-	17
	<b>3,159</b>	<b>102</b>	<b>67</b>	<b>*3,328</b>
Custody Fees				37
Performance Measurement Fees				33
Other Investment Fees				14
<b>Investment Management Expenses</b>				<b>3,412</b>

\* Includes £2.086m charged for assets in the London CIV asset pool (£1.732m 2019/20)

**12. Investment Income**

2020/21 £000		2021/22 £000
8,101	Pooled Investments – unit trusts and other managed funds	9,542
1,881	Income from Bonds*	1,339
1,887	Pooled Property Investments	2,580
3,841	Income from derivatives (Foreign Exchange Gains/(losses))	2,294
126	Interest on Cash Deposits	43
(297)	Other Income**	(821)
<b>15,539</b>	<b>Investment Income</b>	<b>14,977</b>

\* Income includes Index linked Interest of £0.208m (2020/21 £0.137m)

\*\* Management expenses to offset against gross income

**13. Taxes on Income**

2020/21 £000		2021/22 £000
-	Withholding Tax	-
-	<b>Taxes on Income</b>	-

14. Analysis of Investments

2020/21 £000		2021/22 £000
	<b>Investment Assets</b>	
150	<b>Long Term Investments</b>	150
<b>150</b>		<b>150</b>
	<b>Bonds</b>	
39,001	Fixed Interest Securities	22,977
36,897	Index-Linked Securities	39,097
<b>75,898</b>		<b>62,074</b>
	<b>Pooled Investment</b>	
61,822	Fixed Interest Unit Trust	63,252
87,978	Diversified Growth Fund	85,428
44,536	Infrastructure	56,760
477,416	Global Equity	473,469
<b>671,752</b>		<b>678,909</b>
	<b>Other Investments</b>	
68,986	Pooled Property	93,775
36,825	Private Equity and Joint Venture	55,134
1,148	Derivatives – Forward Currency Contracts	50
<b>106,959</b>		<b>148,959</b>
3,321	Cash deposits Managers	16,985
480	Investment income due	363
<b>3,801</b>		<b>17,348</b>
<b>858,560</b>	<b>Total Investment Assets</b>	<b>907,440</b>
	<b>Investment Liabilities</b>	
	<b>Derivative Contracts</b>	
(262)	Forward Currency Contracts	(2,218)
(1)	Income Receivable	(2)
<b>(263)</b>	<b>Total Investment Liabilities</b>	<b>(2,220)</b>
<b>858,297</b>	<b>Total Net Investments</b>	<b>905,220</b>

#### 14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2021 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Cash & Other Movements £000	Market Value at 31 March 2022 £000
Fixed Interest Securities	39,001	18,071	(31,277)	(1,988)	(830)	22,977
Index-linked Securities	36,897	39,955	(39,380)	1,625	-	39,097
Pooled Investment Vehicles	671,902	88,999	(94,293)	12,451	-	679,059
Other Investments	105,811	29,213	(2,280)	16,165	-	148,909
Derivatives – forward currency contracts	886	127,525	(127,525)	(3,054)	-	(2,168)
Cash Deposits (fund managers)	3,321	-	-	(1)	13,665	16,985
	<b>857,818</b>	<b>303,763</b>	<b>(294,755)</b>	<b>25,198</b>	<b>12,835</b>	<b>904,859</b>
Other Investment Balances	479	-	-	-	(118)	361
	<b>858,297</b>	<b>303,763</b>	<b>(294,755)</b>	<b>25,198</b>	<b>12,717</b>	<b>905,220</b>

	Market Value at 31 March 2020 Restated £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Cash & Other Movements £000	Market Value at 31 March 2021 £000
Fixed Interest Securities	49,206	19,163	(32,774)	3,406	-	39,001
Index-linked Securities	40,033	95,380	(99,896)	1,380	-	36,897
Pooled Investment Vehicles	519,985	33,363	(43,672)	162,226	-	671,902
Other Investments	89,760	23,815	(4,685)	(3,079)	-	105,811
Derivatives – forward currency contracts	(728)	94,996	(94,996)	1,614	-	886
Cash Deposits (fund managers)	6,778	-	-	1	(3,458)	3,321
	<b>705,034</b>	<b>266,717</b>	<b>(276,023)</b>	<b>165,548</b>	<b>(3,458)</b>	<b>857,818</b>
Other Investment Balances	724	-	-	-	(245)	479
	<b>705,758</b>	<b>266,717</b>	<b>(276,023)</b>	<b>165,548</b>	<b>(3,703)</b>	<b>858,297</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Purchases and Sales of derivatives (forward current contracts) are recognised in Note 14a above for contracts settled during the period are reported on a gross basis as gross receipts and payments.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £0.096m (2020/21 £0.067m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2022 were as follows:

**14b. Investments analysed by Fund Manager**

Value 31 March 2021		Manager	Mandate	Value 31 March 2022	
£000	%			£000	%
<b>Investments managed by London CIV asset pool:</b>					
150	0.01	London CIV	Equities unquoted	150	0.02
111,270	12.96	Ruffer	Pooled Absolute Return Fund	119,358	13.19
191,042	22.27	Baillie Gifford	Pooled Global Alpha Growth Fund	-	0.00
-	-	Baillie Gifford	Pooled Global Alpha Growth Paris Aligned Fund	155,312	17.16
87,978	10.25	Baillie Gifford	Pooled Diversified Growth Fund	85,428	9.44
-	-	State Street Global Advisors	Pooled Passive Equity Progressive Paris Aligned (PEPPA)	44,694	4.94
-	-	Foresight, Blackrock, Quinbrook & Stonepeak	Pooled Infrastructure Renewable	6,916	0.76
<b>390,440</b>	<b>45.49</b>			<b>411,858</b>	<b>45.50</b>
<b>PLUS Life Fund Investments aligned with London CIV asset pool:</b>					
175,105	20.41	Legal & General Investment Management	Passive Global Equities/ Emerging Markets/Future World	166,105	18.35
<b>565,545</b>	<b>65.90</b>	<b>London CIV Total</b>		<b>577,963</b>	<b>63.85</b>
<b>Investments managed outside of the London CIV asset pool:</b>					
38,731	4.51	Royal London Index linked Bonds Fund	Investment Grade Bonds	40,456	4.47
37,958	4.42	Royal London Corp Bond Fund	Investment Grade Bonds	22,257	2.46
61,822	7.20	Royal London Multi Asset Credit Pooled Fund	Fixed Interest Unit Trust	63,251	6.99
41,034	4.78	UBS Property	Pooled Property	61,467	6.79
27,793	3.24	CBRE	Global Pooled Property	32,308	3.57
19,118	2.23	Stafford Capital SISF II	Overseas Pooled Infrastructure	20,304	2.24
1,557	0.18	Stafford Capital SISF IV	Overseas Pooled Infrastructure	7,487	0.83
23,861	2.78	JP Morgan	Overseas Pooled Infrastructure	23,302	2.57
19,138	2.23	Churchill II	Overseas Pooled Private Debt	20,855	2.30
-	-	Churchill IV	Overseas Pooled Private Debt	7,756	0.86
17,687	2.06	Permira PCS4	Overseas/UK Pooled Private Debt	26,524	2.93
2,666	0.31	Russell Investments	Currency Management	(1,538)	(0.17)
1,387	0.16	Other	Other	2,828	0.31
<b>292,752</b>	<b>34.10</b>	<b>Managed outside asset pool Total</b>		<b>327,256</b>	<b>36.15</b>
<b>858,297</b>	<b>100.00</b>	<b>Total Fund</b>		<b>905,220</b>	<b>100.00</b>

The following investments represent more than 5% of the net assets of the Fund

Market Value 31 Mar 2021 £000	% of Total Fund	Security	Market Value 31 Mar 2022 £000	% of Total Fund
191,042	21.85	London CIV Global Alpha Fund	-	-
-	-	London CIV Global Alpha Paris Aligned Fund	155,312	17.16
111,270	12.73	London CIV Ruffer Absolute Return Fund	119,358	13.19
-	-	LGIM Future World Fund	93,296	10.31
87,978	10.96	London CIV Diversified Growth Fund	85,428	9.44
61,822	7.07	Royal London Multi Asset Credit Pooled Fund	63,251	6.99
-	-	UBS Property	61,467	6.79
71,550	8.18	LGIM All World Equity Index	-	-
64,316	7.36	LGIM FTSE RAFI AW 3000 Index	-	-
<b>597,978</b>		<b>Total Fund</b>	<b>578,112</b>	

#### 14c. Stock Lending

We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager, Legal and General Investment Management (LGIM), who carry out stock lending as part of the Fund's activities. Stock Lending occurs in limited number of overseas equities index funds.

The Stock Lending programme is managed and administered by the custodian of the funds (Citibank) within the risk control parameters set by LGIM. The programme has been operating for over 10 years and enjoys an indemnity from Citibank. Stock lending is only undertaken with counterparties who have satisfied the requirements in terms of market capability and minimum credit standing.

All income arising from stock lending less the custodian/administrator's costs are credited to the funds lending the stocks. LGIM does not receive any revenue from the stock lending. As at 31 March 2022, the value of quoted equities on loan was £1.586m (31 March 2021 £3,233m). These equities continue to be recognised in the fund's financial statements.

#### 15. Analysis of derivatives

##### Objectives and policies for holding derivatives

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the Fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and various investment managers.

##### Forward foreign currency

The Fund currently has exposure to forward currency contracts and the purpose of this is to reduce the Fund's exposure to fluctuations in exchange rates. The Fund managers who use forward currency contracts are Royal London. A breakdown of forward contracts held by the Fund as at 31 March 2022 is given below:

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value (Unrealised Gain)	Liability Value (Unrealised Loss)
		<b>000</b>		<b>000</b>	<b>£000</b>	<b>£000</b>
Up to One month	GBP	17,087	EUR	(17,234)	-	(147)
	GBP	22,386	USD	(22,994)	4	(612)
	GBP	2,046	AUD	(2,198)	-	(152)
	USD	113	GBP	(110)	3	-
	EUR	1,603	GBP	(1,590)	13	-
Up to Two months	GBP	15,950	EUR	(16,132)	-	(182)
	GBP	23,042	USD	(23,745)	-	(703)
	GBP	2,138	AUD	(2,307)	-	(169)
	USD	354	GBP	(346)	8	-
	EUR	938	GBP	(933)	5	-
Up to Three months	AUD	333	GBP	(316)	17	-
	GBP	17,171	EUR	(17,391)	-	(220)
	GBP	20,492	USD	(20,523)	-	(31)
	GBP	2,693	AUD	(2,695)	-	(2)
	USD	643	GBP	(643)	-	-
	EUR	332	GBP	(332)	-	-
	AUD	204	GBP	(204)	-	-
Open forward currency contracts at 31 March 2022					50	(2,218)
Net forward currency contracts at 31 March 2022						(2,168)
Gross open forward currency contracts at 31 March 2021					1,445	(2,173)
Net forward currency contracts at 31 March 2021						886

## 16. Fair Value Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, where possible using market based information. There has been no change in the valuation techniques used during the year.

Asset and Liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values.

### Level 1

Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, comprising quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

### Level 2

Where quoted market prices are not available or where valuation techniques are used to determine fair value based on observable data.

### Level 3

Where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The Valuation basis for each category of investment asset is set out below:

Description of asset	Value hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Market quoted investments</b>	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
<b>Pooled Quoted</b>	Level 1	Published bid	Not required	Not required
<b>Quoted bonds</b>	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
<b>Pooled Unquoted investments</b>	Level 2	Developed using Market Data	No material difference between the value of assets & liabilities and their fair value	Not Required
<b>Forward foreign exchange derivatives</b>	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
<b>UK Pooled instruments-property funds</b>	Level 3	Valuations carried out by the property funds external valuers, Knight Frank LLP	Market value in accordance with the "RICS" Appraisal and Valuation Standards	Valuations could be affected by significant differences in rental value and rent growth
<b>Overseas Pooled instruments property funds (CBRE)</b>	Level 3	The valuation function is performed by the Alternative Investment Fund Manager (AIFM) in accordance with the AIFMD	A Pricing Committee, composed of senior members of the AIFM, is in place, who meet quarterly and is responsible for overseeing proposed adjustments to the value of investments	Valuations could be affected by significant differences in rental value and rental growth. There may be a timing difference between the date of the last reported underlying property valuation and the date of the Funds financial statements, during which the underlying property valuation may have increased or decreased by a significant amount

Description of asset	Value hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Overseas Pooled instruments Infrastructure Funds (JP Morgan)</b>	Level 3	Estimated fair values are determined by the Advisor at valuation date and independently appraised on a quarterly basis.	Three valuation techniques can be used, the market, income or cost approach. For this fund, Income approach was used based on Unobservable input of Discount/WAAC rate and Exit EBITDA Multiples.	Risks to the valuation involve a number of local, national and international economic conditions. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuations may have increased or decreased by a significant amount
<b>Overseas Pooled Instruments Infrastructure Funds (Stafford Capital)</b>	Level 3	Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.	Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.	Risks to the valuation involve a number of local, national and international economic conditions. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuations may have increased or decreased by a significant amount.
<b>Overseas Pooled instruments Private Debt Funds (Churchill)</b>	Level 3	Valuations undertaken quarterly and determined by the Investment Manager. To determine the value the manager relies on guidance by various regulatory and industry organisations and authorised to use independent third party pricing services and valuation firms.	Unobservable inputs are determined by the Investment Manager and shall take into account items that it reasonably believes would impact the valuation (such as expenses and reserves).	Significant increases (decreases) in discount yields could result in lower (higher) fair value measurement. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuation may have increased or decreased by a significant amount.
<b>Overseas/UK Pooled instruments Private Debt Funds (Permira)</b>	Level 3	Fair Value is determined by the AIFM based on advice from Portfolio Manager and based on the International Private Equity and Venture Capital guidelines or other standards agreed by the Senior Fund Advisory Committee.	Unobservable inputs are determined by the Investment Manager.	Use of estimates and changes in assumptions may have significant on the valuations. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuation may have increased or decreased by a significant amount.
<b>Overseas/UK Pooled instruments Renewable Infrastructure (LCIV)</b>	Level 3	Fair Values are calculated in whole or in part using techniques based in assumptions using IA SORP	Unobservable inputs are determined by the Investment Manager.	Use of estimates and changes in assumptions may have significant on the valuations. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuation may have increased or decreased by a significant amount.

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent performance measurement service, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

	Assessed valuation range (+/-)	Value at 31 March 2022	Value on increase	Value on decrease
	%	£000	£000	£000
Pooled Property Funds	4.65	93,775	98,135	89,414
Pooled unit Trusts	7.60	111,894	120,399	103,391

### 16a. Fair Value Hierarchy

The following tables provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which fair value is observable.

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2022	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial Assets</b>				
Financial assets at fair value through profit and loss	496,472	204,935	205,669	907,076
Loans and receivables	15,975	-	-	15,975
<b>Total Financial Assets</b>	<b>512,447</b>	<b>204,935</b>	<b>205,669</b>	
<b>Financial Liabilities</b>				
Financial liabilities at amortised cost	(2,968)			(2,968)
<b>Total Financial Liabilities</b>	<b>(2,968)</b>			<b>(2,968)</b>
<b>Net Financial Assets</b>	<b>509,479</b>	<b>204,935</b>	<b>205,669</b>	<b>920,083</b>

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial Assets</b>				
Financial assets at fair value through profit and loss	704,263	150	150,346	854,759
Loans and receivables	20,204	-	-	20,204
<b>Total Financial Assets</b>	<b>724,467</b>	<b>150</b>	<b>150,346</b>	<b>874,963</b>
<b>Financial Liabilities</b>				
Financial liabilities at amortised cost	(728)	-	-	(728)
<b>Total Financial Liabilities</b>	<b>(728)</b>	<b>-</b>	<b>-</b>	<b>(728)</b>
<b>Net Financial Assets</b>	<b>723,739</b>	<b>150</b>	<b>150,346</b>	<b>874,235</b>

The Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

#### 16b Reconciliation of Fair Value Measurement within Level 3

	Market Value 31 March 2021	Transfer Into Level 3	Purchases	Sales	Unrealised gains/loss es	Realised gains/losses	Market Value 31 March 2022
	£000	£000	£000	£000	£000	£000	£000
Property Funds	68,985	10,000	-	(94)	14,884	-	93,775
Infrastructure	44,536	14,274	1,257	(4,272)	1,105	(140)	56,760
Private Debt	36,825	27,993	1,220	(2,186)	1,331	(49)	55,134
<b>Total</b>	<b>150,346</b>	<b>42,267</b>	<b>2,477</b>	<b>(6,552)</b>	<b>17,320</b>	<b>(189)</b>	<b>205,669</b>

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account

(a) Transferred from Level 1 to Level 3 due to progressing the change in investment strategy - disinvestment from Level 1 to invest in Infrastructure Level 3

(b) Transferred from Level 1 to Level 3 due to progressing the change in investment strategy - disinvestment from Level 1 to invest in Private Debt Level 3

(c) All transfers between levels are recognised in the month in which they occur.

## 17 Financial Instruments

### (a) Classification of financial instruments

The following table analyses the carrying amounts of financial instruments by category and net asset statement heading. No financial instruments were reclassified during the accounting period.

31 Mar 2021				31 Mar 2022		
Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000		Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
			<b>Financial Assets</b>			
150	-	-	Long Term Investments	150	-	-
39,001	-	-	Bonds -Fixed Interest Securities	22,977	-	-
36,897	-	-	Bonds - Index linked securities	39,097	-	-
1,148	-	-	Derivative contracts	50	-	-
671,752	-	-	Pooled investment Vehicles	678,909	-	-
36,825	-	-	Private Equity and joint venture	55,134	-	-
68,986	-	-	Property	93,775	-	-
-	3,321	-	Cash	-	16,985	-
-	480	-	Other Investment Balances	-	363	-
-	16,403	-	Debtors	-	15,612	-
<b>854,759</b>	<b>20,204</b>	-	<b>Financial Assets Total</b>	<b>890,092</b>	<b>32,960</b>	-
			<b>Financial Liabilities</b>			
(1)	-	-	Other Investment Balances	(2)	-	-
(262)	-	-	Derivative contracts	(2,218)	-	-
-	-	(465)	Creditors	-	-	(749)
<b>(263)</b>	-	<b>(465)</b>	<b>Financial Liabilities Total</b>	<b>(2,220)</b>	-	<b>(749)</b>
<b>854,496</b>	<b>20,204</b>	<b>(465)</b>	<b>Grand total</b>	<b>887,872</b>	<b>32,960</b>	<b>(749)</b>
<b>874,235</b>				<b>920,083</b>		

### (b) Net Gains and Losses on Financial Instruments

2020/21 £000		2021/22 £000
	<b>Financial assets</b>	
165,548	Fair value through profit and loss	25,198
<b>165,548</b>	<b>Total</b>	<b>25,198</b>

The Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## **18. Nature and Extent of Risks Arising from Financial Instruments**

### **Risk and Risk Management**

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Authority manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the authorities' pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

#### **(a) Market Risk**

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising investing return.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the pension fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

#### **Other Price Risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. The Fund's investment managers mitigate this risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

#### **Other Price Risk – Sensitivity Analysis**

Following analysis of historical data and expected investment return movements during the financial year, in consultation with Pensions & Investments Research Consultants (PIRC) , it has been determined that the following movements in market price risk are reasonably possible for the 2022/23, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

<b>Asset Type</b>	<b>Value as at 31 March 2022 £000</b>	<b>Potential market movements %</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
Pooled Equities	536,871	15.30	619,012	454,730
Total Bonds	62,074	7.00	66,419	57,729
Pooled Overseas Unit Trusts	111,894	7.60	120,398	103,390
Global Pooled inc.UK	85,428	4.70	90,810	80,046
Pooled Property	93,775	6.30	98,182	89,368
Cash	15,178	0.50	15,254	15,102
<b>Total</b>	<b>905,220</b>		<b>1,019,075</b>	<b>800,365</b>

<b>Asset Type</b>	<b>Value as at 31 March 2021 £000</b>	<b>Potential market movements %</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
Pooled Equities	539,389	15.6	623,532	455,243
Total Bonds	75,898	7.7	81,743	70,054
Pooled Overseas Unit Trusts	81,361	7.8	87,707	75,015
Global Pooled inc.UK	87,978	6.5	93,697	82,260
Pooled Property	68,985	3.4	71,331	66,640
Cash	4,686	0.6	4,714	4,658
<b>Total</b>	<b>858,297</b>		<b>962,724</b>	<b>753,870</b>

### **Interest Rate Risk**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

### **Interest Rate Risk Sensitivity Analysis**

The analysis that follows assumes all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1%) change in interest rates. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

#### Assets exposed to interest rate risk

Assets exposed to interest rate risk	Value as at 31 March 2022 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on Decrease £000
Bond Securities	62,074	621	62,695	61,453
Cash and Cash Equivalents	15,178	152	15,330	15,026
Cash Balances	14,260	143	14,403	14,117
<b>Total Change in Asset Value</b>	<b>91,512</b>	<b>915</b>	<b>92,427</b>	<b>90,597</b>

Assets exposed to interest rate risk	Value as at 31 March 2021 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on Decrease £000
Bond Securities	75,898	759	76,657	75,140
Cash and Cash Equivalents	4,686	47	4,733	4,639
Cash Balances	15,963	160	16,123	15,804
<b>Total Change in Asset Value</b>	<b>96,547</b>	<b>966</b>	<b>97,513</b>	<b>95,583</b>

#### Currency Risk

Currency risk represents the risk that fair value of future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling.

#### Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with PIRC, it has been determined that a likely volatility associated with foreign exchange rate movements is 7.34% over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7.34% strengthening and weakening of the pound against the various currencies in which the Fund holds investments would increase or decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Value as at 31 March 2022 £000	Potential Market movement at 7.34% £000	Value on increase £000	Value on Decrease £000
Overseas Pooled	110,762	8,130	118,892	102,632
Overseas Cash	1,169	86	1,255	1,083
<b>Total change in assets available to pay benefits</b>	<b>111,931</b>	<b>8,216</b>	<b>120,147</b>	<b>103,715</b>

<b>Assets exposed to currency risk</b>	<b>Value as at 31 March 2021</b>	<b>Potential Market movement at 8.40%</b>	<b>Value on increase</b>	<b>Value on Decrease</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Overseas Pooled	91,468	7,683	99,151	83,784
Overseas Cash	541	45	587	496
<b>Total change in assets available to pay benefits</b>	<b>92,009</b>	<b>7,728</b>	<b>99,738</b>	<b>84,280</b>

**(b) Credit Risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The Fund has not experienced any actual defaults in recent years and the current practice is to obtain a guarantee before admitting new employers so that all pension obligations are covered in the event of that employer facing financial difficulties.

Cash not needed to settle immediate financial obligations are invested by the Authority in accordance with the Treasury Investment Strategy. The Treasury Investment Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk.

**(c) Liquidity Risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it always has adequate cash resources to meet its commitments.

The Fund's cash holding under its treasury management arrangements as at 31 March 2022 was £14.260m (31 March 2021 £15.963m). The Pension Fund has immediate access to its cash holdings that are invested by the Authority and periodic cash flow statements are prepared to manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund's cash management policy and in line with the Fund's strategy holds assets that are considered readily realised.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2022 the value of liquid assets was £714m, which represented 78% of the total Fund (31 March 2021 £724m, which represented 83% of the total fund assets).

**(d) Refinancing Risk**

The key risk is that the Authority will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Authority does not have any financial instruments that have a refinancing risk as part of its investment strategies.

## **19. Funding Arrangements**

### **Actuarial Statement for 2021/22**

This statement has been prepared in accordance with Regulation 57(1) (d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

### **Description of Funding Policy**

The Funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS) dated December 2019. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by council tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

### **Funding Position as at the last formal funding valuation**

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £733 million, were sufficient to meet 70% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £320 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2022 were set in accordance with the Fund's funding policy as set out in its FSS.

### **Principal Actuarial Assumptions and Method used to value the liabilities**

Full details of the methods and assumptions used are described in the 2019 valuation report.

#### **Method**

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

#### **Assumptions**

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Assumptions	31 March 2019
	%
Discount Rate for Period	3.3
Salary increases assumption	3.0
Benefit increase assumption (CPI)	2.3

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model with an allowance for smoothing of recent mortality experience and long term rates of 1.25% p.a for males and females. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.6 years	23.7 years
Future Pensioners*	22.4 years	25.2 years

\* Aged 45 at the 2019 Valuation

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administrating Authority to the Fund.

### Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at March 2022 is likely to be better than reported at the previous formal valuations as at March 2019.

It is important to note that the formal triennial valuation exercise is as 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.

## 20. Actuarial Present Value of Promised Retirements

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities to disclose the actuarial present value of retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19.

31 March 2021	Year Ended	31 March 2022
£m		£m
1,557	Present Value of Promised Retirement Benefits	1,499
874	Fair Value of Scheme assets (bid value)	920
<b>683</b>	<b>Net Liability</b>	<b>579</b>

The promised retirement's benefits at 31 March 2021 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, the actuary is satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, the actuary has not made any allowance for unfunded benefits.

It should be noted that the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2022 and 31 March 2021. It is estimated that the impact of the change in financial assumptions to 31 March 2022 is to decrease the actuarial present value by £113m. It is estimated that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £9m.

### Financial assumptions

The actuary's recommended financial assumptions are summarised below:

31 March 2022 % p.a.	Year Ended (% p.a)	31 March 2021 % p.a.
3.20	Pension Increase Rate	2.85
3.90	Salary Increase Rate	3.55
2.70	Discount Rate	2.00

### Demographic assumption

The longevity assumptions have changed since the previous IAS16 disclosure for the Fund.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.6 years	24.0 years
Future Pensioners	22.6 years	25.7 years

All other demographic assumptions are unchanged from last year and as per the latest funding valuation of the Fund.

### Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Change in assumptions at 31 March 2020	Approximate % increase to promised retirement benefits %	Approximate monetary amount £m
0.1% p.a. decrease in the Real Discount Rate	2	29
1 year increase in member life expectancy	4	60
0.1% p.a. increase in the Salary Increase Rate	0	2
0.1% p.a. increase in the Pension Increase Rate (CPI)	2	26

## Professional notes

These notes accompany the covering report titled 'Actuarial Valuation as at 31 March 2022, which identifies the appropriate reliance and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

### 21. Current Assets

2020/21 £000		2021/22 £000
	<b>Debtors:</b>	
307	Contributions due from employers	676
79	Contributions due from employees	195
116	Pension Fund Bank Account Balances	117
9	Sundry Debtors	326
15,876	Cash deposit with LB Havering	14,167
16	Holding Accounts	131
<b>16,403</b>	<b>Current Assets</b>	<b>15,612</b>

### 22. Current Liabilities

2020/21 £000		2021/22 £000
	<b>Creditors:</b>	
(252)	Benefits Payable	(301)
(169)	Sundry Creditors	(293)
(44)	Holding Accounts	(155)
<b>(465)</b>		<b>(749)</b>

### 23. Additional Voluntary Contributions

Market Value 2020/21 £000	AVC Provider	Market Value 2021/22 £000
841	Prudential*	810
144	Standard Life	148

Some employees made additional voluntary contributions (AVC's) of £31,422 (2020/21 £31,030) excluded from these statements. These are deducted from the employees' salaries and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2021/22 were £29,022 (2020/21 £28,730) to the Prudential and £2,400 (2020/21 2,400) to Standard Life.

## 24. Agency Services

The Fund pays discretionary awards to the former employees of Havering. The amounts paid are fully reclaimed from the employer bodies.

2020/21 £000		2021/22 £000
1,329	Payments on behalf of Havering Council	1,270

## 25. Related Party Transactions

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Fund, or to be controlled or influenced by the Fund.

The Fund is administered by the London Borough of Havering. During the reporting period, the council incurred costs of £0.682mm (2020/21 £0.538m) in relation to the administration and management of the fund and was reimbursed by the Fund for these expenses.

The Authority is also the largest employer in the Fund and in 2021/22 contributed £34,643m (2020/21 £32.392m) to the Pension Fund in respect of employer's contributions. All monies owing to and due from the fund were paid in year.

Part of the Pension Fund internal cash holdings are invested on the money markets by the treasury management operations of the London Borough of Havering, through a service level agreement. As at 31 March 2022 cash holdings totalled £14,167m (2020/21 £15.837m), earning interest over the year of £0.043m (2020/21 £0.126m).

The Fund is a minority shareholder in the London CIV Pool limited, and shares valued at £0.150m at 31 March 2022 (2020/21 £0.150m) are included as long term investments in the net asset statement. A mixed portfolio of pension fund investments is managed by the London CIV as shown in Note 14b. During 2021/22 a total of £2.238m was charged to the Fund by the London CIV in respect of investment management services (2020/21 £2.086m).

### Governance

Responsibility for management of the Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Statutory Section 151 officer and the Managing Director of oneSource.

No members of the Pension Fund Committee are in receipt of pension benefits from the Havering Pension Fund.

Each member of the Pension Fund Committee and Local Pension Board are required to declare their interests at each meeting.

During the year no Member or Council officer with direct responsibility for Pension Fund issues has undertaken any declarable material transactions with the Pension Fund.

The members of the Pensions Committee do not receive fees in relation to their specific responsibilities as members of the Pensions Committee.

The members of the Local Pension Board receive an attendance allowance for each meeting and these costs are included within Note 11.

## **Note 25a Key Management Personnel**

Paragraph 3.9.4.4 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and member's allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit Regulations 2015 satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 244. This applies in equal measure to the accounts of the Havering Pension Fund.

The disclosures required by the above legislation can be found in the main accounts of Havering Council.

## **26. Contingent Liabilities and Contractual Commitments**

Outstanding capital commitments (investments) as at 31 March 2022 were £117.36m (31 March 2021 £50.62m). These commitments relate to outstanding capital call payments due on unquoted limited partnership funds held in Private Debt and Infrastructure parts of the portfolio.

Following the Freedom and Choice provisions announced in the 2014 Budget, the Pension Fund has seen some enquiries from members about transferring benefits out of the LGPS. There are potential liabilities of £0.396m in respect of individuals transferring out of the pension Fund upon whom the Fund is awaiting final decisions. Information is not available which shows how much of this is attributable to Freedom and Choice provisions.

Four admitted bodies in the Pension Fund hold insurance bonds or guarantees in place to guard against the possibility of being unable to meet their pension obligations. These bonds total £1.34m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Six admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £0.41m.

The Fund, in conjunction with the other borough shareholders in the London CIV, has entered into an exit payment agreement with the London CIV, acting as a Guarantor. The Fund will meet any exit payments due should the London CIV cease its admission arrangements with the City of London. Should the amount become due the Fund will meet 1/32 share of the costs.

# Asset Pools

In 2015 the Department of Housing, Communities and Local Government (as it then was) now the Department of Levelling Up, Housing & Communities (DLUHC) issued *LGPS: Investment Reform Criteria and Guidance* which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- benefits of scale
- strong governance and decision making
- reduced costs and excellent value for money, and
- an improved capacity and capability to invest in infrastructure.

This led to the creation of eight asset pools which have significantly changed the previous approach to investing, although it should be stressed that the responsibility for determining asset allocations and the investment strategy remains with the Havering Pension Fund.

The Havering Pension Fund's asset pool is the London CIV (LCIV).

The LCIV is a Collective Investment Vehicle for London Local Authorities (LLA) Local Government Pension Scheme (LGPS) funds. Its purpose is to be the LGPS pool for London to enable the LLAs to achieve their pooling requirements and work in partnership with the LLAs in order to do so. LCIV is owned by its London clients so they are shareholders in the Company.

The LCIV was initially established in 2015 as a voluntary collaborative venture by the LLAs to pool/invest the assets of the London LGPS and it has been a mandatory requirement to pool assets since 2016.

It is the Fund's intention to invest its assets through the LCIV pool. As at 31 March 2022 the Fund has 46% (45% 2020/21) of its assets fully pooled with LCIV and a further 18% (20% 2020/21) of its assets passively managed under advisory/execution mandates by the LCIV. Those assets held with the LCIV are now managed by them and report performance to the Committee periodically.

The Fund will continue to assess the products available on the LCIV platform for their suitability to meet the Funds investment strategy objectives.

For a breakdown of assets managed directly by the pool and investment assets managed outside of the pool please refer to the Investment Policy and Performance section of the report under Asset Allocation.

Contact details of the pool company:

**Postal address**

London CIV

Fourth Floor

22 Lavington Street

London

SE1 0NZ

**Email:** pensionsCIV@londonciv.org.uk

**Telephone:** 0208 036 9000

## Governance Arrangements

### LCIV Legal and Regulatory Framework

The LCIV currently operates using Authorised Contractual Scheme (ACS), exempt Unauthorised Unit Trust (EUUT) structures and General /Limited Partnerships (such as a Scottish Limited Partnership (SLP)). It is authorised and regulated by the Financial Conduct authority (FCA).

The Company is governed by its Articles of Association and Shareholder Agreements which reserves matters to Shareholders for approval by majority or unanimously.

The key legislation governing operations include the Financial Services and Markets Act 2000 and the Companies Act 2006 and are also subject to the Freedom of Information Act 2000.

### London CIV Corporate Governance Framework

Current governance framework was implemented September 2018 in response to a review undertaken in 2017 (with minor amendments in July 2020 following a review in 2019).

Governance Framework comprises of:

- Articles of Association and Shareholder Agreements
- Shareholder decisions at two General meetings
- The Board of Directors
- Shareholder Committee
- Other Board Committees

The formal framework above is complemented by informal engagements with Seed Investor Groups (SIGs) which provide involvement with client funds in respect of fund launches, Responsible Investment Group (RIRG) and a Cost Transparency Working Group (CTWG) which both provide opportunities for informal governance and consultation arrangements. Monthly 'Business Update' meetings provide ongoing communication between LCIV and client funds and regular 'Meet the Manager' meetings enhance engagement in manager oversight.

### The London CIV Committee structure consists of the following:

**The Board of Directors** - meet at least four times annually. The Board has ultimate responsibility for the management of the Company, its general policy and ensuring the agreement and implementation of the Company strategic direction. Comprises of 3 Executive Directors, 2 Non-Executive Directors (NEDs) nominated by shareholders, one chair and 5 other independent NEDs. The Board has three other committees:

- **Investment Oversight Committee (IOC)** – Oversees the investment activity, in line with strategy and business plan, including responsible investments.
- **Compliance/Audit/Risk Committee (CARCO)** - Oversees compliance obligations, Risk management framework and integrity of financial statements and reporting
- **Remuneration and Nomination Committee (RemNomCo)** – Oversees Remuneration policy, remuneration of key staff and nominations and succession planning for key staff and the Board

**Shareholders Committee** - meets quarterly and acts collectively and are to be consulted by the Board on strategy, direction and financial performance and Company policies. It will also identify emerging issues likely to impact shareholders and the Company.

**Shareholder General meeting** – meets twice a year with all 32 shareholders plus a Chair. The meeting is to inform all shareholders on the performance of the LCIV and allow shareholders to exercise their rights under the Shareholder powers and hold the Board to account.

**Executive Committee (ExCo)** – meets monthly. The Board has delegated to the Chief Executive Officer (with support of other executive directors) responsibility for the day to day operations of the company.

The arrangements with Local Authorities are formalised via a Service Level Agreement (SLA).

The LCIV Annual Review for 2022 is available on their website and includes the Business review, Corporate Governance and Financial Statements. <https://londonciv.org.uk/>

## POST POOL REPORTING

### Pool set up costs

The breakdown of set up costs has not been made available in the detail required so it is not practical to compile data in the relevant format suggested in the guidance.

Please see the following table for the set ups cost and as reported by the London CIV their management costs and fee savings:

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Cumulative Total
<b>Set Up Costs:</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000's</b>
Share Purchase Subscription	150							150
Annual Service Charge	25	25	25	25	25	25	25	175
Implementation Fund	50	-	-	-	-	-	-	50
Development Fund	-	-	75	65	65	85	85	375
<b>Total Set Up costs Total</b>	<b>225</b>	<b>25</b>	<b>100</b>	<b>90</b>	<b>90</b>	<b>110</b>	<b>110</b>	<b>750</b>
ADD LCIV Indirect management Fees	Not available	59	76	78	92	92	99	496
ADD LCIV Direct management Fees	-	-	-	2	-	8	9	19
<b>Total cost</b>	<b>225</b>	<b>84</b>	<b>176</b>	<b>170</b>	<b>182</b>	<b>210</b>	<b>218</b>	<b>1,265</b>
Gross Fee savings	6	35	98	259	534	543	667	2,142
<b>Net Savings</b>	<b>(219)</b>	<b>(49)</b>	<b>(78)</b>	<b>89</b>	<b>352</b>	<b>333</b>	<b>449</b>	<b>877</b>

### Ongoing investment management costs

In addition to the operating costs of the pool shown above the Fund also pays ongoing investment costs. These costs include fees paid to the pool for managing the investments and fees paid to managers for assets held outside the pool.

An analysis of these costs are further split between those costs for which the funds pay directly via an invoice and costs that are indirectly charged by reducing the valuation of the fund (In the accounts we take account of the indirect costs by increasing the change in market value).

Analysis of costs for the year to 31 March 2022, as per the statement of accounts, can be seen in the following table:

	Asset Pool			Non asset pools			Fund Total
	Direct	Indirect	Total	Direct	Indirect	Total	
	£000	£000	£000	£000	£000	£000	£000
<b>Management Fees</b>							
...ad valorem	107	1,792	1,899	294	1,412	1,706	3,605
...performance	-	-	-		117	117	117
<b>Total Management Fees</b>	<b>107</b>	<b>1,792</b>	<b>1,899</b>	<b>294</b>	<b>1,529</b>	<b>1,823</b>	<b>3,722</b>
Asset Shared Cost (LCIV Management Fees)	11	100	111	-	-	-	111
Transaction costs	2	11	13	-	-	-	13
Custody Costs	-	86	86	42	-	42	128
Other Costs	-	236	236	31	-	31	267
<b>Total</b>	<b>120</b>	<b>2,225</b>	<b>2,345</b>	<b>367</b>	<b>1,529</b>	<b>1,896</b>	<b>4,241</b>

#### Asset Allocation and performance for the year as at 31 March 2022

Asset Category	Opening Value	Closing Value	Performance Gross	Performance Net	Passive index	Local Target
	£000	£000	%	%	%	%
<b>Asset pool managed investments</b>						
Pooled Multi Asset/DGF Total	199,248	204,785	6.30	5.54	n/a	3.94
Pooled Equities Total	191,192	155,462	6.40	6.04	8.98	n/a
Passive Listed Equity Total	175,105	210,799	2.77	2.76	2.84	n/a
Pooled Infrastructure Total	0	6,917				
<b>Asset pool managed Total</b>	<b>565,545</b>	<b>577,963</b>	<b>4.98</b>	<b>4.64</b>	<b>n/a</b>	<b>5.15</b>
<b>Non Asset pool managed investments</b>						
Pooled Property Total	68,985	93,775	22.99	22.24	n/a	19.08
Pooled Infrastructure Total	44,536	49,844	13.09	12.41	n/a	12.11
Pooled Private Debt Total	36,825	55,134	7.82	7.27	n/a	3.60
Active Bonds Total	137,720	125,326	-5.87	-6.07	n/a	-7.60
Cash Deposits Total	1,541	4,354	n/a	n/a	n/a	n/a
Other Total	479	361	n/a	n/a	n/a	n/a
Derivatives (Currency Overlay) Total	2,666	-1,537	n/a	n/a	n/a	n/a
<b>Non Asset pool managed investments Total</b>	<b>292,752</b>	<b>327,257</b>	<b>6.73</b>	<b>6.26</b>	<b>n/a</b>	<b>4.16</b>
<b>Fund Total</b>	<b>858,297</b>	<b>905,220</b>	<b>5.00</b>	<b>4.59</b>	<b>n/a</b>	<b>8.08</b>

#### Notes for the above table

- Performance figures are based on information provided by Northern Trust in their quarterly performance reporting to 31 March 2022, which we understand are net of fees;
- The performance of certain mandates (including CBRE, Churchill and JP Morgan) captures an element of FX rate movement due to these mandates being denominated in a non-GBP currency. In practice, these currency fluctuations are hedged through the Fund's currency overlay programme managed by Russell.
- We have approximately blended performance from underlying mandates, by allowing for estimated average asset levels over the periods invested. For this purpose, average asset levels are based on information provided to us by the investment managers or Northern Trust for quarterly monitoring purposes;
- Gross of fees performance is estimated by adding the charges to the net performance figures. For this purpose, we have used charges set out in the Appendix to our regular monitoring reports.
- We have included 12 months, 3 year and 5 year figures, as suggested by the guidance and as provided last year;
- We have assumed 'passive index' relates to investments which can be replicated via index-tracking funds and 'local target' for other investments;
- Performance for the Royal London mandate has been split (as per monitoring reports) into individual Portfolios for Corporate Bonds, Index-Linked Gilts and MAC;
- 12 month, 3 year and 5 year performance for LCIV Baillie Gifford Global Alpha and LGIM Fundamental Equity, 3 year and 5 year performance for LGIM World Equity and Emerging Market Equity and performance for the Royal London Index-Linked Gilts and MAC Portfolios have been calculated by chain-linking the quarterly return figures provided by the investment manager for quarterly monitoring purposes; In general, blended performance figures should be regarded as 'indicative'. Whilst they are calculated based on available information, a more accurate approach would allow for precise asset levels and cash flows.

# Pensions Administration Strategy

Under Regulation 59(1) of the Local Government Pension Scheme Regulations 2013, an administering authority may prepare a written statement in relation to the authority's policies regarding pensions administration.

The Havering Pension Fund's Pensions Administration Strategy (PAS) was formally approved by the Pensions Committee and became effective from 1<sup>st</sup> October 2021. The strategy sets out the roles and responsibilities for both the administering authority and scheme employers and the expected performance standards. This is available to view on the Council's website [havering - pensions administration strategy](#).

The PAS will be used to help drive a more efficient pensions administration service delivery to our members. During the 6 months from implementation to 31<sup>st</sup> March 2022, we have been working with scheme employers to ensure they are aware of the PAS and understand their responsibilities and the expectations of the administering authority and pensions administrators.

In 2022/2023 we will be monitoring employers against the published service level agreements within the PAS and a full year's worth of statistics will be provided in the Annual Report for that year.

# Funding Strategy Statement - Overview

The Fund publishes a Funding Strategy Statement (FSS) in accordance with Regulation 58 of the LGPS Regulations 2013.

The Regulation requires the Pension Fund Administering Authority to publish a statement, keep its statement under review and to make such revisions as are appropriate following a material change to its policy as set out in the statement.

The FSS was reviewed as part of the 2019 valuation process and produced in line with the revised and updated guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2016. The FSS was effective from December 2019.

The FSS was prepared by the Administration Authority in collaboration with the Fund's Actuary, Hymans Robertson and after consultation with the Fund's employers. The draft version of the Funding Strategy Statement was distributed to all participating employers and the consultation ended on 20 December 2019.

The FSS sets out the objectives of the London Borough of Havering Pension Fund's funding strategy and includes a summary of the Fund's approach to funding its liabilities.

There is a link between the funding strategy and investment strategy as 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

The FSS can be found in the appendices attached to this report and is available on the Authority's website by selecting the link [Havering Pension Fund](#)

There were regulatory updates to the LGPS 2013 regulations during 2020 and the Pensions Committee amended its FSS on the 12 January 2021 to incorporate the legislative changes. The FSS will be updated as part of the 2022 valuation process.

In collaboration with the Fund's Actuary the Fund has produced an Admissions Policy. The Admissions Policy covers acceptance, on-going treatment and cessation of admitted bodies. This is to ensure that a considered and consistent approach to the admission of new employers to the Fund can be followed. To view the Admissions Policy please select the following link to the Council's website: [admissions policy](#).

Four admitted bodies in the Pension Fund hold insurance bonds or guarantees in place to guard against the possibility of being unable to meet their pension obligations. These bonds total £1.34m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Six admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £0.41m.

The Authority undertakes regular reviews of the above statement and will consider any comments you may have for future reviews. Please forward comments to the contact point designated on [page 112](#) of this report.

# Investment Strategy Statement - Overview

The Local Government Pensions Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 came into force in November 2016 and guidance was issued by the Department for Communities and Local Government (DCLG) in September 2016, now known as the Ministry of Housing, Communities and Local Government (MHCLG).

The Fund has in place an Investment Strategy Statement (ISS), which consists of a document split into two sections:

**Investment Strategy Statement** - The Statement sets out the London Borough of Havering's policies, in its capacity as Administering Authority, for the investments of the Fund.

In line with LGPS (Management and Investment of Funds) Regulation 2016 – Regulation 7, the authority's statement must include:

- (a) a requirement to invest money in a wide variety of investments;
- (b) an assessment of the suitability of particular investments and types of investments;
- (c) its approach to risk, including the ways in which risks are to be measured and managed;
- (d) its approach to pooling investments, including the use of collective investment vehicles and shared services;
- (e) a policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisations of investments; and
- (f) a policy on the exercise of the rights (including voting rights) attaching to investments.

The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund's members under the LGPS.

The ISS has been prepared by the Fund's Pension Committee having taken advice from the Fund's investment adviser, Hymans Robertson LLP and having regard to guidance issued by MHCLG.

The Committee adopted a new Investment Strategy Statement (ISS) in November 2017 and implementation of achieving the long term target asset allocation has been ongoing since then. An updated version of the ISS was presented to the Pensions Committee at its meeting on the 29 July 2020 (postponed from 17 March 2020) to reflect the decisions and progression of the implementation of the strategy made by the Committee since its launch in 2017.

In line with LGPS (Management and Investment of Funds) Regulations 2016 Section 7 (5) the authority consulted with participating stakeholders and the consultation was closed on the 16 March 2020.

Following the 29 July 2020 meeting the Committee considered and agreed further developments in the investment strategy at its meetings on the 1 October 2020 and 16 March 2021.

The Pensions Committee has also completed its development of a formal Statement of Investment Beliefs. These beliefs have now been incorporated into the ISS. The Pensions Committee believe that having a clear set of investment beliefs can improve governance by providing a framework for all investment decisions. It will provide a rationale for the decision making process and drive the ISS going forward.

**Myners** - The LGPS (Management and investment of Funds) regulations 2016 have removed the requirement to publish compliance against the six Myners principles but the Committee agreed it was best practice to still publish and explain compliance against these principles. This is published with the ISS when it was published in July 2020. This statement shows the extent to which it complies with guidance as issued by the Secretary of State. Where it does not comply, reasons for non-compliance must be disclosed.

In demonstrating best practice the Fund has published its compliance against the Myners principles, having regard to CIPFA's guide to the application of the Myners Principles 'investment decision making and disclosure' in December 2009.

A copy of the [ISS](#) and compliance against the [Myners Principles](#) can be found in the appendices attached to this report.

This ISS and the Myners compliance table have also been published on the Authority's website by selecting the link [Havering Pension Fund](#).

The Authority undertakes regular reviews of the above statement and will consider any comments you may have for future reviews. Please forward comments to the contact point designated on [page 112](#) of this report.

# Communication Policy Statement

The Local Government Pension Scheme Administration Regulations 2015 requires the administering authority to prepare and publish a written statement covering communications with scheme members and employing authorities.

The statement must set out the policy concerning:

- communications with members, representatives, prospective members and employing authorities
- format, frequency and method of distributing such information or publicly
- The promotion of the scheme to prospective members and their employers

This statement is reviewed periodically. A revised Communications Policy Statement was approved at the Pension Committee on 9<sup>th</sup> November 202 for the period 2021 – 2024. A review of the Communication Strategy achievements for 2021/22 is shown below.

The Communications Strategy for 2021 -24 can be found in the appendices at the back of this report.

This Statement has also been published on the Authority's website by selecting the link: [Havering Pension Fund](#)

## Communication Policy Delivery

### Communications with Scheme Members

Action	Audience	Media	End of Year Review 2021/22
Review and update the pension websites and intranet site	All	Web	The LPPA have maintained and updated the member website including the My Pension Online Member Self Service Portal. During 2021 Havering launched a pensions web page within the Havering.gov website. This is used to publish all Havering specific pension related news and documents. We have also reviewed and updated the intranet page for Havering employees
Promote the use of the pension websites and Intranet	All	Web	The LPPA website is promoted on member correspondence. Both the LPPA and the Havering websites are promoted during face to face or virtual meetings. We have also utilised corporate and employer communications to increase awareness.

Action	Audience	Media	End of Year Review 2021/22
Promote My Pension Online – Member Self Service	Active, Deferred and Pensioners	Web	Member Self Service is promoted to all new members to the pension scheme. We have utilised corporate and employer communications to increase awareness. At the end of March 2022 19.6% of the total membership had registered for MSS, an increase of 4.9% from the previous year.
Ensure relevant, accurate and timely communications are sent to all members	All	Paper or electronic	Standard communications are monitored as part of the KPI monitoring process.

### Communications with Prospective Scheme Members

Action	Audience	Media	End of Year Review 2021/22
Ensure pension website is included with new employee contracts and information packs	New employees	Paper or electronic	All new members receive a starter pack from LPPA that provides all the relevant information about the LPPA website
Review and update the pension websites	All	Web	The LPPA have maintained and updated the member website including the My Pension Online Member Self Service Portal. During 2021 Havering launched a pensions web page within the Havering.gov website. This is used to publish all Havering specific pension related news and documents. We have also reviewed and updated the intranet page for Havering employees
Work with employers to ensure automatic enrolment is correctly communicated	Existing employee	Paper or electronic	No Havering scheme employers enrolled during this year.

## Communications with Scheme Employers

Action	Audience	Media	End of Year Review 2021/22
Meet with all new scheme employers to discuss responsibilities and requirements	Employers	Face to face or virtually	There were no new employers admitted during this year
Review and update the employer sections of the pension websites	Employer	Web	The LPPA have maintained an employer website. During 2021 Havering launched a pensions web page within the Havering.gov website. This is used to publish all Havering specific pension related news and documents.
Work with LPPA to promote employer training sessions	Employer	Web	LPPA ran a number of different training sessions throughout the year. 25 Havering scheme employer representatives were in attendance across all courses. 4 employers received targeted virtual visits
Work with LPPA to ensure accurate and timely data submissions	Employer	Email, phone, face to face or virtually	Havering launched the Pensions Administration Strategy detailing the expected timeframes for data submissions. Havering have worked with employers to ensure all 2021 year end data queries are resolved.
Provide regular updates to employers on key aspects of the scheme	Employer	Web or email	LPPA have launched a regular employer newsletter to provide updates on the scheme and other relevant information.

## Communications with Representatives of Members

### A. Pensions Committee

Action	Audience	Media	End of Year Review 2021/22
To submit Committee reports in line with the annual plan and as and when required	Pensions Committee Members	Paper and web	All relevant reports were submitted and presented to Committee and uploaded onto the Havering Website
To arrange required training as and when required	Pensions Committee Members	Face to Face or virtually	Various training was provided to all Committee members during the year

## B. Local Pensions Board

Action	Audience	Media	End of Year Review 2021/22
To submit reports in line with the Board work plan and any additional areas identified at meetings	Local Pension Board	Paper and web	All relevant reports were submitted and presented to the Local Pension Board and uploaded onto the Havering Website
To arrange required training as and when required	Local Pension Board	Face to Face, online or virtually	Induction training has been provided to new Board member and information regarding external training courses has been circulated.

## C. Havering and OneSource Managers

Action	Audience	Media	End of Year Review 2021/22
To write key or non-key executive decision reports as required in line with the Council's constitution	Senior or oneSource Management	Paper or email	All relevant reports have been written and submitted in line with the Council's Constitution
To ensure the provision of employer estimates is in line with the contractual agreement	HR and Heads of Service	Paper or email	Estimates have been supplied in line with contractual agreements for 99.5% of requests. This is continually monitored to ensure the flow of information is secure and efficient.

The pension website is promoted on the staff intranet at the Council and in Global News articles to ensure information on the pension scheme is accessible and available to everyone, not just scheme members.

The website provides links to relevant external agencies.

The Council jobs page includes, within the General Conditions of Employment, relevant for all potential and actual applicants, information on the Local Government Pension Scheme.

# External Audit Opinion

## INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF HAVERING ON THE PENSION FUND FINANCIAL STATEMENTS

The external audit opinion for the Pension Fund Annual Report is reliant on the audit of the statement of accounts to be completed, for the reasons stated below:

The external audit of the draft statement of accounts for the year ended 31 March 2022 has not yet been completed by our external auditors, EY LLP, due to the audit being rescheduled. This situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015. (See attached link: <http://www.legislation.gov.uk/ukxi/2015/234/regulation/10/made>).

Therefore this notification explains, as per paragraph (2a), that we are not yet able to publish our audited 2021/22 final statement of accounts in line with deadline of 30th September 2022, as per paragraph (1). The Governance & Assurance Committee will consider the results of the 2021/22 audit, after which we will publish the final audited accounts.

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# Contact Points for Further Information

If you have any queries on the benefits or costs of membership of the Pension Fund, please contact:

Local Pensions Partnership Administration (LPPA)  
PO Box 1383  
Preston  
PR2 0WR

Telephone: 0300 323 0260

Website Contact page: <https://www.lppapensions.co.uk/contact/>

For further information on issues relating to Fund Investments and Accounts, or feedback on any of the contents in this report please contact:

Debbie Ford  
Pension Fund Accountant  
Central Library, 1<sup>st</sup> Floor  
Romford  
RM1 3AR

Telephone: 01708 432569

Email: [PensionsFinance@haverling.gov.uk](mailto:PensionsFinance@haverling.gov.uk)

**Other useful addresses:**

National Local Government Pension Scheme website: <https://www.lgpsmember.org/>

The Pension Service website: [www.thepensionservice.gov.uk](http://www.thepensionservice.gov.uk) [www.gov.uk/browse/working/state-pension](http://www.gov.uk/browse/working/state-pension)

Pensions Ombudsman <https://www.pensions-ombudsman.org.uk/>

Money and Pensions Services (formerly Pensions Advisory Service) <https://moneyandpensionservice.org.uk/>

# APPENDICES



**Haverling**  
LONDON BOROUGH

## **PENSION FUND**

# **GOVERNANCE COMPLIANCE STATEMENT**

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Updated November 2019

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

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## 1. STRUCTURE AND ROLE OF MEMBERS

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

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

### 1.1 Role of Pensions Committee

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

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

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

## 1.2 Role of Local Pension Board (the Board)

The functions of this board are as follows:

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

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

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

## 2. MEMBERSHIP AND REPRESENTATION

### 2.1 Pensions Committee

Since May 2019, the membership of the Pensions Committee reflects the political balance of the Council and consists of seven councillors as listed below:

<b>Conservative Group (3)</b>	<b>Resident's Group (1)</b>	<b>Upminster &amp; Cranham Residents' Group (1)</b>	<b>North Havering Residents' Group (1)</b>	<b>Labour Group (1)</b>
John Crowder (Chair) Osman Dervish Jason Frost	Stephanie Nunn	Ron Ower	Martin Goode (Vice chair)	Keith Darvill

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

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

Representatives are shown below:

<b>Admitted/Scheduled bodies representatives</b>	<b>Trade Union Observers</b>
Vacant	Andy Hampshire (GMP) Derek Scott (UNISON)

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

## **2.2 Local Pension Board**

The Havering Pension Board consists of four members as follows:

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

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

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

Each employer representative and scheme member representative appointed shall serve for a fixed four year period which can be extended for further period (s) subject to re-nomination to ensure that expertise is maintained within and members can be fully trained.

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

### 3. GUIDANCE AND MONITORING

#### 3.1 Pensions Committee

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

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

Investment Managers are invited to present at the Pensions Committee meeting on a rotational basis. Only one fund manager will attend each committee meeting to give greater focus to investment strategy development. Mandates that operate within the London Collective Investment Vehicle (LCIV) are now managed and monitored by them. However if there are any specific matters of concern to the Committee relating to the managers performance, arrangements will be made for additional presentations.

### **3.2 Local Pension Board**

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

## **4. REIMBURSEMENT**

### **4.1 Pensions Committee**

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

### **4.2 Local Pension Board**

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

Reasonable travelling expenses for training will be reimbursed.

## **5. TRAINING**

### **5.1 Pensions Committee**

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

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

## **5.2 Local Pension Board**

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

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

## **6. MEETINGS**

### **6.1 Pensions Committee**

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

### **6.2 The Local Pension Board**

The Board will hold five meetings per year, approximately two weeks after the Pensions Committee meeting, with one Annual meeting being held at the beginning of the committee cycle. Two members constitute quorum providing that there is present at least one member from both the Employer and Scheme Member Groups. Advisors and officers do not count towards the quorum.

## **7. SCOPE**

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

- Risk of fraud
- Corporate risk – risk of deterioration in the strength of employer covenant
- Funding and Investment risk – inappropriate investment strategies (one example of this could be risk of a mismatch of assets and liabilities)

- Compliance of Regulatory risk – risk of failure to comply with scheme rules and legislation

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

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

## **8. ACCESS AND PUBLICATION**

### **8.1 Pensions Committee**

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

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

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

## **8.2 Local Pension Board**

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

## **9. REVIEWING AND UPDATING**

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

## **10. COMPLIANCE TABLE**

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

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

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

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

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

PRINCIPLE	HAVERING POSITION
<b>F <u>Meetings (frequency/quorum)</u></b>	
a. That an administering authority's main committee or committees meet at least quarterly	<p><b>Full compliance.</b></p> <p>The Pension Committee meets five times a year and occasionally holds extra meetings if and when required. Section 6 of the Governance Compliance Statement refers.</p>
b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the committee sits.	No secondary committee or panel has been established.
c. That an administration authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which interests of key stakeholders can be represented.	<p><b>Full compliance.</b></p> <p>Membership on the Pensions Committee includes a representative to serve all Admitted/Scheduled bodies. Representatives also sit on the Local Pension Board.</p> <p>The current forums for which stakeholders interests can be represented are:</p> <ul style="list-style-type: none"> <li>• Through invitation to committee meeting</li> </ul> <p>Written correspondence – employers are invited for comments via letters and email as part of any consultation process, including proposed policy changes. Havering is one of the partnerships working with the London Pensions Fund Authority, who have produced a website for scheme members to use. Factsheets and scheme communications are also published on this website along with contact details at Havering for members to contact with their views.</p>

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



**Haverling**  
LONDON BOROUGH

**HAVERING PENSION FUND  
COMMUNICATION STRATEGY**

**2021-2024**

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## 1. Introduction

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

Havering Council, as the administering authority for the Havering Pension Fund (the Fund), must maintain a communications policy as required by the Local Government Pension Scheme Regulation 2013.

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

This policy identifies our key stakeholders and details the different forms and methods of communications required to maintain the successful governance and administration of the Fund.

Every effort is made to ensure all our communications are accessible to all. Documents can be re-produced in different fonts, formats and languages where required by the recipient.

### Strategy Review, Ownership and Authorisation

The Havering Pension Fund Communications Policy is effective from November 2021.

The administering authority will review this policy as required to reflect changes in regulations, governance or working practices with a full review every three years

The policy lead is the Pension Projects and Contracts Manager. The document has been developed with approval from the Pensions Committee.

If you have any questions or comments regarding the Communications Policy, please contact Caroline Guyon, Pensions Projects and Contracts Manager.

Telephone: 01708 432185 or via email [caroline.guyon@haverling.gov.uk](mailto:caroline.guyon@haverling.gov.uk)

### Pensions Administration

From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council who have engaged the Local Pensions Partnership Administration (LPPA) to undertake their pension portfolio. The Local Pensions Partnership was formed in 2016 through a collaboration between Lancashire County Council and the London Pensions Fund Authority and provides pension services to the Local Government Pension Scheme, Police and Firefighter Schemes.

LPPA can be contacted via telephone on 0300 323 0260 or via the contact form on the [website](#).

## 2. Legislative Framework

The Fund is required by regulation 61 of the Local Government Pension Scheme Regulations 2013 to maintain and publish a communications policy statement. Regulation 61 is reproduced below:

**61.** (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with-

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

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

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

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

In accordance with the Public Sector Pensions Act 2015, the LGPS is regulated by the Pensions Regulator who has provided guidance in Code of Practice 14 on providing good quality communications to Scheme members and other stakeholders.

## 3. Key Objectives

The key objectives of the communications policy are:

- To improve the understanding of members, their representatives and perspective members of the benefits of the Local Government Pension Scheme
- Assist Scheme employers in understanding their roles and responsibilities within the LGPS and to provide guidance and support
- To improve the service that Pension Fund Members receive
- Use plain English for all communications
- Identify and use the most appropriate communication method to take account of stakeholders' different needs
- To communicate in the most effective and cost efficient way

## 4. Communications with Scheme Members

Our aims for communicating with our scheme members are:

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

The Key actions will be:

- continual review of employee communication methods to ensure they are effective and efficient
- on-going promotion of the pension websites and Member Self Service
- Working with LPPA to ensure communications are relevant and timely

Action	Audience	Media	End of Year Review 2022
Review and update the pension websites and intranet site	All	Web	The LPPA have maintained and updated the member website including the My Pension Online Member Self Service Portal. During 2021 Havering launched a pensions web page within the Havering.gov website. This is used to publish all Havering specific pension related news and documents. We have also reviewed and updated the intranet page for Havering employees
Promote the pension websites and intranet	All	Web	The LPPA website is promoted on member correspondence. Both the LPPA and the Havering websites are promoted during face to face or virtual meetings. We have also utilised corporate and employer communications to increase awareness.
Promote My Pension Online – Member Self Service	Active, Deferred and Pensioner	Web	Member Self Service is promoted to all new members to the pension scheme. We have utilised corporate and employer communications to increase awareness. At the end of March 2022 19.6% of the total membership had registered for MSS, an increase of 4.9% from the previous year.
Ensure relevant, accurate and timely communications are sent to all members	All	Paper or electronic	Standard communications are monitored as part of the KPI and contract monitoring process.

The Administering Authority will ensure the following communications are provided as required, in addition to day to day individual communications with members.

<b>Communication</b>	<b>Media</b>	<b>Frequency of Issue</b>	<b>Distribution</b>	<b>Audience</b>
Pension Websites	Web	Continually available. Updated as required	Advertised on all communications	All
Havering staff intranet site	Web	Continually available. Updated as required	Advertised regularly via internal communications	Havering Corporate staff
Scheme booklet	Web	Continually available. Updated as required	For viewing as required	All
Factsheets	Web	Continually available. Updated and replaced as required	For viewing as required	All
Newsletters and scheme updates	Web or paper	As required	For viewing as required. Post to home address for targeted communication	All
Forms	Web or paper	As required	Available to download or post to home address	All
Annual Benefit Statements	Web or paper if opted out of online statements	Continually available. Updated annually	For viewing as required. Members are informed of availability via personal email, email to employers or internal Global News	Active and Deferred
Retirement Workshops	Web	Periodically	LPPA run retirement workshops for members nearing retirement. These are advertised via employer communications	Active
Road shows/ Workshops	Face to face in person or virtually	When required	Advertised via email, Global News, Posters and employers	Active

Pensioner payslips	Paper	1 <sup>st</sup> pension payment and every April, May and October	Post to home address	Pensioner
Notice of Pensions Increase	Paper	Annually in April	Post to home address with April payslip	Pensioner
Internal Disputes Resolution Procedure	Paper or Web	Continually available. Updated as required	Post to home address or available to download	All
Annual Report and Accounts	Web	Continually available. Replaced annually	For viewing as required.	All

### Explanation of communications

**Pension Websites** - The LPPA website ([www.lppapensions.co.uk](http://www.lppapensions.co.uk)) provides LGPS information for all of their clients, including forms, guides, newsletters, links to related sites including My Pension Online Member Self Service and contact information. The Havering Pension website ([havering - finance, pensions and data](#)) provides information specific to Havering Fund members such as our retirement process factsheet and planning guide, IDR policy, Annual report and accounts and information about the Local Pensions Board.

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

**Factsheets** – Leaflets that provide information in relation to specific topics, for example automatic enrolment.

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

**Forms** – LGPS forms are available on the pension website such as opt out form, 50:50 or Main Scheme election form and nomination form.

**Annual Benefit Statements** – For active members these include the current value of benefits and projected benefits to normal retirement date. The associated death benefits are also shown. For deferred members these show the current value of the pension benefits and associated death benefits. These are released by the end of August and are available on My Pension Online – Member Self Service. Members can opt out of the online service and elect to receive a paper copy sent to their home address.

Retirement workshops – LPPA run a programme of retirement workshops held virtually throughout the year. We advertise these via employer and internal communications

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

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

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

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

## 5. Communications with Prospective Scheme Members

Our aims for communicating with our prospective scheme members are:

- to increase the take up of the LGPS
- to better educate members of the benefits of the scheme to reduce the general queries being directed to the LPPA help desk

The Key actions will be:

- review of communication methods to ensure they are effective and efficient
- ensuring automatic enrolment and re-enrolment is well communicated

Action	Audience	Media	End of Year Review 2022
Ensure pension website is included with new employee contracts and information packs	New employees	Paper or electronic	All new members receive a starter pack from LPPA that provides all the relevant information about the LPPA website.

Review and update the pension websites	All	Web	The LPPA have maintained and updated the member website including the My Pension Online Member Self Service Portal. During 2021 Havering launched a pensions web page within the Havering.gov website. This is used to publish all Havering specific pension related news and documents. We have also reviewed and updated the intranet page for Havering employees
Work with employers to ensure automatic enrolment is correctly communicated	Existing employee	Paper or electronic	No Havering scheme employers enrolled during this year.

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

Communication	Media	Frequency of Issue	Distribution	Audience
Pensions Joiner Option Form	Paper or electronic	On commencing employment	Via LPPA with new starter information	New employees
Pension Websites	Web	Continually available. Updated as required	Advertised on all communications	All
Scheme booklet	Web	Continually available. Updated as required	For viewing as required	All
Education Sessions	Face to Face or virtually	As required	Part of induction workshops	New Employees
Annual Report and Accounts	Web	Continually available. Replaced annually	For viewing as required.	All

#### Explanation of communications

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

Pension Website - The LPPA website ([www.lppapensions.co.uk](http://www.lppapensions.co.uk)) provides LGPS information for all of their clients, including forms, guides, newsletters, links to related sites including My Pension Online Member Self Service and contact information. The Havering Pension website

[havering - finance, pensions and data](#) provides information specific to Havering Fund members such as our retirement process factsheet and planning guide, IDR policy, Annual report and accounts and information about the Local Pensions Board.

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

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

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

## 6. Communications with Scheme Employers

Our aims for communicating with our scheme employers are:

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

The Key actions will be:

- offer induction meetings for all new scheme employers
- support employers with training and technical guidance
- on-going promotion of the employer section of the LPPA pension website and use of the YourFund secure portal
- working with relevant parties to admit new employers to the fund

Action	Audience	Media	End of Year Review 2022
Meet with all new scheme employers to discuss responsibilities and requirements	Employers	Face to face or virtually	There were no new employers admitted during this year

Review and update the employer sections of the pension websites	Employer	Web	The LPPA have maintained an employer website. During 2021 Havering launched a pensions web page within the Havering.gov website. This is used to publish all Havering specific pension related news and documents.
Work with LPPA to promote employer training sessions	Employer	Web	LPPA ran a number of different training sessions throughout the year. 25 Havering scheme employer representatives were in attendance across all courses. 4 employers received targeted virtual visits.
Work with LPPA to ensure accurate and timely data submissions	Employer	Email, phone, face to face or virtually	Havering launched the Pensions Administration Strategy detailing the expected timeframes for data submissions. Havering have worked with employers to ensure all 2021 year end data queries are resolved.
Provide regular updates to employers on key aspects of the scheme	Employer	Web or email	LPPA have launched a regular employer newsletter to provide updates on the scheme and other relevant information.

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

<b>Communication</b>	<b>Media</b>	<b>Frequency of Issue</b>	<b>Distribution</b>	<b>Audience</b>
Induction meeting	Face to Face or virtually	On becoming a scheme employer	By email	New scheme employers
New employer information pack	Electronic	On becoming a scheme employer	By email	New scheme employers
Pension Websites	Web	Continually available. Updated as required	Advertised on all communications	All
Tupe Manual and Admissions Policy	Web	Continually available. Updated as required	For viewing as required	Scheme employers and potential admitted bodies
Employer roadshows	Face to Face or virtually	When required following scheme changes	Advertised via email to employer	All

Annual Report and Accounts	Web	Continually available. Replaced annually	For viewing as required.	All
Pension Fund Valuation reports	Electronic	Every three years	Via email	All
Funding Strategy Statement	Web	Continually available. Replaced every three years and updated as required	For viewing as required.	All
Employer Newsletters	Electronic and Web	Periodically	Via Email or for viewing as required	Scheme employers

### Explanation of communications

Induction Meeting – A meeting offered to all new academies and admitted bodies to discuss roles and responsibilities.

New Employer Information Pack – Email sent to welcome an employer to the Havering LGPS, including all information relevant to being a scheme employer, eg paying contributions and the pensions administration strategy detailing their role and responsibilities.

Pension Website - The LPPA website ([www.lppapensions.co.uk](http://www.lppapensions.co.uk)) provides LGPS information for all of their clients, including forms, guides, newsletters, links to related sites including My Pension Online Member Self Service and contact information. The Havering Pension website [havering - finance, pensions and data](#) provides information specific to Havering Fund members such as our retirement process factsheet and planning guide, IDR policy, Annual report and accounts and information about the Local Pensions Board.

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

Employer Roadshows – Provided by LPPA/LB Havering as required following a significant change in the scheme

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

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

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

## 7. Communications with Representatives of Members

### A. Pensions Committee

Our aims for communicating with Pensions Committee are:

- to provide information to enable the Committee to make decisions delegated under the Council’s constitution
- to provide information to ensure the Committee are kept informed of pension related matters
- to ensure the Committee are aware of their responsibilities in relation to the Scheme
- to provide training with regards to investment and administration matters

The Key actions will be:

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

Action	Audience	Media	End of Year Review 2022
To submit Committee reports in line with the annual plan and as and when required	Pensions Committee Members	Paper and web	All relevant reports were submitted and presented to Committee and uploaded onto the Havering Website
To arrange required training as and when required	Pensions Committee Members	Face to Face, online or virtually	Relevant training was provided to Committee members during the year

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

Communication	Media	Frequency of Issue	Distribution	Audience
Pensions Committee Reports	Paper and Web	Quarterly and as and when required	By email and available on the Havering.Gov website	Pension Committee Members and Trade Union representatives
Pensions Committee Briefings	Face to face or Hybrid	Quarterly and as and when required		Pensions Committee Members and Trade Union representatives
Training sessions	Face to face or virtually	When there is a new Pensions Committee and as and when required	By email	Pensions Committee Members and Trade Union representatives

#### Explanation of communications

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

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

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

### **B. Local Pensions Board**

Our aims for communicating with the Local Pensions Board are:

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

The Key actions will be:

- to submit reports on areas identified for review by the Board.

- To arrange training sessions with Fund officers, advisors and external experts when required

Action	Audience	Media	End of Year Review 2022
To submit reports in line with the Board work plan and any additional areas identified at meetings	Local Pension Board	Paper and web	All relevant reports were submitted and presented to the Local Pension Board and uploaded onto the Havering Website
To arrange required training as and when required	Local Pension Board	Face to Face, online or virtually	Induction training has been provided to new Board members and information regarding external training courses has been circulated.

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

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

Explanation of communications

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

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

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

### C. Havering and oneSource Managers

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

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

The Key actions will be:

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

Action	Audience	Media	End of Year Review 2022
To write key or non-key executive decision reports as required in line with the Council's constitution	Senior or oneSource Management	Paper or email	All relevant reports have been written and submitted in line with the Council's Constitution
To ensure the provision of employer estimates is in line with the contractual agreement	HR and Heads of Service	Paper or email	Estimates have been supplied in line with contractual agreements for 99.5% of requests. This is continually monitored to ensure the flow of information is secure and efficient.

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

Communication	Media	Frequency of Issue	Distribution	Audience
Key and non-key executive decision reports and background papers where required	Paper or electronic	As and when required	By email	Officer delegated responsibility under the Council's constitution

Employer requested pension estimates, usually for redundancy, flexible retirement or ill health retirement	Paper or electronic	As requested	By email	HR or Head of Service
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Explanation of communications

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

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

#### **D. Other Stakeholders**

##### **Pension Fund Manager (Finance)**

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

##### **Pension Projects and Contracts Manager**

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

##### **Investment Fund Managers**

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

##### **Trade Unions**

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

# London Borough of Havering Pension Fund

Funding Strategy Statement

December 2020

# Contents

## Funding Strategy Statement

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- Appendix D – The calculation of Employer contributions
- Appendix E – Actuarial assumptions
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# 1 Introduction

## 1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 12 January 2021.

## 1.2 What is the London Borough of Havering Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Havering Fund, in effect the LGPS for the London Borough of Havering area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

## 1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

The FSS is a summary of the Fund’s approach to funding its liabilities, and this includes reference to the Fund’s other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see [Section 4](#))

#### **1.4 How does the Fund and this FSS affect me?**

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

#### **1.5 What does the FSS aim to do?**

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

## 1.6 How do I find my way around this document?

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact Debbie Ford in the first instance at e-mail address [Debbie.Ford@oneSource.co.uk](mailto:Debbie.Ford@oneSource.co.uk) or on telephone number 01708 432569.

## 2 Basic Funding issues

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

### 2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
- Calculate the employer contribution rate such that it has a predetermined minimum likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

### 2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay or a monetary amount in each year.

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

### 2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

**Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies’ membership in LGPS Funds.

**Designating employers** - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

The New Fair Deal gives any council staff providing services under contract to certain maintained schools (including Foundation schools), who are TUPE’d to another contractor, the right to remain in the LGPS. This would be through an admission agreement and are referred to as transferee admission bodies as set out below.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. Please note, the terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

The extension of TABs, particularly for low value contracts, can expose both the scheme employers and the other employers in the Fund to risk. The risk from Academies is partly offset by the Secretary of State guarantee.

#### **2.4 How does the calculated contribution rate vary for different employers?**

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

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

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

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

## 2.5 How is a funding level calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's "deficit"; if it is more than 100% then the employer is said to be in "surplus". The amount of deficit or surplus is the difference between the asset value and the liabilities value.

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

In short, funding levels and deficits/surpluses are short term, high level risk measures, whereas contribution-setting is a longer term issue.

## 2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result; and
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, covenant assessment, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see [3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

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

## **2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?**

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However, it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

[The LGPS Scheme Advisory Board \(SAB\) issued advice to LGPS funds in May 2019](#). As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to make no allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation.

The Fund has taken the following action:

- Reserved additional prudence within the discount rate. As at 31 March 2019, the Fund's investment strategy had a greater than 80% likelihood of delivering 3.3% p.a. Had there not been any risks associated with McCloud, the Fund would have considered a lower likelihood of success; and
- Increased the pace of funding. When setting the funding plans for scheduled bodies, the Fund has determined contributions allowing for a higher probability of employer's meeting their funding targets over their respective time horizons. For instance, the Council rate has been set such that there is at least a 67% likelihood of being fully funded (as opposed to 60% previously). Academies have target 75% (as opposed to the 70% which was the proposed target before McCloud risks were introduced).

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table [3.3](#) for further information.

## **2.8 When will the next actuarial valuation be?**

On 8 May 2019 MHCLG issued a [consultation](#) seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

## 3 Calculating contributions for individual Employers

### 3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore, the Administering Authority, with advice from the actuary, may adopt alternative funding approaches on a case by case basis for specific employers.

### 3.2 The effect of paying lower contributions

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

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

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf [\(3.3\)](#) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

### 3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies		Community Admission Bodies and Designating Employers		Transferee Admission Bodies*	
Sub-type	Local Authorities	Academies	Open to new entrants	Closed to new entrants	Open to New Entrants	Closed to New Entrants
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see <a href="#">Appendix E</a> )		Ongoing, but may move to “gilts exit basis” - see <a href="#">Note (a)</a>		Contractor exit basis, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )	
Primary rate approach	(see <a href="#">Appendix D – D.2</a> )					
Stabilised contribution rate?	Yes - see <a href="#">Note (b)</a>	No				
Maximum time horizon – <a href="#">Note (c)</a>	20 years	20 years	Future working lifetime subject to a maximum of 15 years		Outstanding contract term subject to a maximum of 15 years	
Secondary rate – <a href="#">Note (d)</a>	Monetary Amount or percentage of pay as appropriate					
Treatment of surplus	Covered by stabilisation arrangement	Contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority		Reduce contributions by spreading the surplus over the remaining contract term		
Likelihood of achieving target – <a href="#">Note (e)</a>	60%***	70%***	75%**		75%	75%**
Phasing of contribution changes	Covered by stabilisation arrangement	3 years, subject to the Administering Authority being satisfied as to the strength of the employer’s covenant.		None		
Review of rates – <a href="#">Note (f)</a>	Review of rates will be carried out in line with the Regulations and as set out in <a href="#">Note (f)</a>					
New employer	n/a	<a href="#">Note (g)</a>	<a href="#">Note (h)</a>		<a href="#">Notes (h) &amp; (i)</a>	
Cessation of participation: exit debt/credit payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation calculation principles applied would be as per <a href="#">Note (j)</a> .		Can be ceased subject to terms of admission agreement. Exit valuations will be calculated on a basis appropriate to the circumstances of cessation – see <a href="#">Note (j)</a> .		Participation is assumed to expire at the end of the contract. Exit 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 <a href="#">Note (j) for further details</a> .	

\* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor’s assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in [note \(i\)](#).

\*\* The Administering Authority may reduce the required likelihood where a cessation is imminent.

\*\*\* Please see section 2.7

### **Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)**

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. based on the return from gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

### **Note (b) (Stabilisation)**

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority; and
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see [Section 4](#)), the Administering Authority has agreed a stabilisation mechanism with the Fund Actuary taking into account a number of factors.

The stabilisation criteria and limits will be reviewed at the 31 March 2022 valuation. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

### **Note (c) (Maximum time horizon)**

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

### **Note (d) (Secondary rate)**

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

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

### **Note (e) (Likelihood of achieving funding target)**

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

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

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

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

### **Note (f) (Regular Reviews)**

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 \(i\)](#).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor. In particular there are three different routes that such employers may wish to consider:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term. 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 enrolls 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 inter valuation 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:-**

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

### **B3 The Fund Actuary should:-**

- 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:-**

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

## Appendix C – Key risks and controls

### C1 Types of risk

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

financial;

demographic;

regulatory; and

governance.

### C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure four key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
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 <a href="#">3.9</a> ).
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

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
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
<p>Reductions in payroll causing insufficient deficit recovery payments</p>	<p>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:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <a href="#">Note (b)</a> to <a href="#">3.3</a>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <a href="#">Note (f)</a> to <a href="#">3.3</a>) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

#### C4 Regulatory risks

Risk	Summary of Control Mechanisms
<p>Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.</p>	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The Administering Authority is monitoring the progress on any settlement as a result of the McCloud ruling and will consider an interim valuation or other appropriate action once more information is known.</p> <p>Explicit allowance has been made in Employer funding plans to help manage the potential effects of McCloud.</p> <p>The Government's long term preferred solution to GMP indexation and equalisation – conversion of GMPs to scheme benefits – was built into the 2019 valuation.</p>
<p>Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see <a href="#">Section 5</a>).</p>	<p>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.</p>
<p>Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.</p>	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

**C5 Governance risks**

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

Risk	Summary of Control Mechanisms
	<p>Reviewing bond or guarantor arrangements at regular intervals (see <a href="#">Note (f)</a> to <a href="#">3.3</a>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <a href="#">Note (a)</a> to <a href="#">3.3</a>).</p> <p>Consider the use of a deferred debt arrangement if the employer is a going concern with sufficient covenant.</p>
<p>An employer ceasing to exist resulting in an exit credit being payable.</p>	<p>The Administering Authority regularly monitors admission bodies coming up to cessation and adjusts funding plans to reduce the risk of any deficit or surpluses at exit.</p> <p>The Administering Authority invests in liquid assets which can be realised to meet any exit credits as and when required.</p>

## Appendix D – The calculation of Employer contributions

As discussed in [Section 2](#), the actuary calculates the required contribution rate for each employer using a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in [3.3 Note \(e\)](#) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

### D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

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

### D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits\*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

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

The projections are carried out using an economic modeller (the “Economic Scenario Service”) developed by the Fund’s actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund’s investment strategy), inflation, and bond yields. Further information about this model is included in [Appendix E](#). The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target (at the end of the time horizon) is equal to the required likelihood.

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

### **D3 How is the Secondary contribution rate calculated?**

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

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

The projections are carried out using the Economic Scenario Service. The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target (at the end of the time horizon) is equal to the required likelihood.

### **D4 What affects a given employer’s valuation results?**

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

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer’s liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

#### **D5 How is each employer's asset share calculated?**

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore, it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

- 1) A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.
- 2) A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers. Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

Using the cashflow approach, the Fund Actuary tracks employer assets on an annual basis. Starting with each employer's assets from the previous year end, the Fund Actuary allows for cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the year to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers' asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

#### **D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?**

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) which has been derived by the Fund Actuary.

## Appendix E – Actuarial assumptions

### E1 What are the actuarial assumptions used to calculate employer contribution rates?

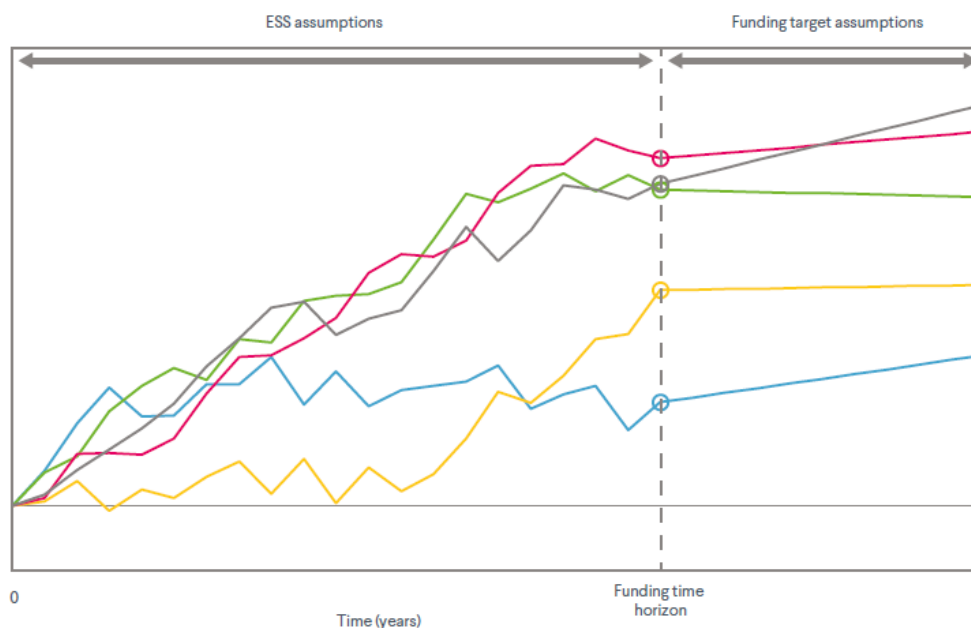
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer’s assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer’s required likelihood) being successful at the end of the employer’s time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer’s assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”).
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases (described in E3 below).



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

## E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

	Annualised total returns								RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
	Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)				
5 years	16th %ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	<b>Volatility (Disp) (1 yr)</b>	1%	7%	10%	17%	17%	14%	11%	1%		

## E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the “discount rate”)

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	Ongoing basis	Contractor exit basis	Gilts exit basis
<b>Employer type</b>	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
<b>Investment return assumption underlying the employer's funding target (at the end of its time horizon)</b>	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.8% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

#### **E4 What other assumptions apply?**

The following assumptions are those of the most significance used in both the projection of the assets, cashflows and in the funding target:

##### **a) Salary growth**

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2021, followed by
2. The retail prices index (RPI) p.a. thereafter.

This gives a single "blended" assumption of RPI less 0.3%. This is a change from the previous valuation, which assumed a blended assumption of RPI less 0.7%. This change has led to an increase in the funding target (all other things being equal) when compared to the 2016 valuation.

##### **b) Pension increases**

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government and is not under the control of the Fund or any employers. At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI (please note, the reduction is applied on a geometric, not arithmetic, basis).

##### **c) Life expectancy**

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for

future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

**d) General**

The same financial assumptions are adopted for most employers (on the ongoing basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

## Appendix F – Glossary

<b>Funding basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer’s time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.
<b>Admission Bodies</b>	Employers where there is an Admission Agreement setting out the employer’s obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see <a href="#">2.3</a> ).
<b>Bond Indemnity</b>	<p>To cover early termination of a contract due to, but not limited to,</p> <ul style="list-style-type: none"><li>• funding strain arising from the early payment of liabilities that will arise as a consequence of redundancy if the Employer goes into liquidation, insolvency or winds up. Employees over age 55 are eligible for immediate payment of pension in the event of being made redundant;</li><li>• any general funding shortfall, arising from variations between experience and assumptions used when determining the ongoing Employer’s contribution rate; and</li><li>• a provision to cover the potential liability due to adverse market conditions over the period until the next actuarial valuation.</li></ul> <p>This bond does not cover any final cessation payments at the end of a contract.</p>
<b>Cessation Valuation</b>	At the natural end of a contract or when the last active member of an employer retires, a cessation valuation is carried out to determine the final contribution due from the employer or 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.
<b>Covenant</b>	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
<b>Designating Employer</b>	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .

<b>Gilt</b>	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
<b>Guarantee / guarantor</b>	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s <b>covenant</b> to be as strong as its guarantor’s.
<b>Letting employer</b>	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy. The letting employer will meet the actuarial fees for setting contribution rates and any bond reviews.
<b>LGPS</b>	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members’ contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
<b>Maturity</b>	A general term to describe a Fund (or an employer’s position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
<b>Members</b>	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
<b>Pass-through</b>	A risk sharing agreement between the letting employer and the contractor.
<b>Primary contribution rate</b>	The employer contribution rate required to pay for ongoing accrual of active members’ benefits (including an allowance for administrative expenses). See Appendix D for further details.
<b>Profile</b>	The profile of an employer’s membership or liability reflects various measurements of that employer’s <b>members</b> , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its <b>maturity</b> also.

**Rates and Adjustments Certificate**

A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.

**Scheduled Bodies**

Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

**Secondary contribution rate**

The difference between the employer's actual and **Primary contribution rates**. See [Appendix D](#) for further details.

**Stabilisation**

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. .

**Valuation**

A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information for a Fund, and usually individual employers too.



**Haverling**  
LONDON BOROUGH

# **INVESTMENT STRATEGY STATEMENT**

## **Investment Strategy Statement July 2020**

### **1. Introduction and background**

- 1.1 This is the Investment Strategy Statement (“ISS”) of the London Borough of Havering Pension Fund (“the Fund”), which is administered by Havering Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).
- 1.2 The ISS has been prepared by the Fund’s Pension Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP and having regard to guidance issued by the Ministry for Housing, Communities and Local Government (MHCLG). The Committee acts on the delegated authority of the Administering Authority.
- 1.3 In order to guide the ongoing development of its investment strategy, the Committee has considered and agreed a series of investment beliefs. These beliefs are set out in Appendix 1.
- 1.4 The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.
- 1.5 The Committee seeks to invest, in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement (dated December 2019).
- 1.6 The ISS was approved by the Committee on 29 July 2020.

### **2. The suitability of particular investments and types of investments**

- 2.1 The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund’s members under the Local Government Pension Scheme. Against this background, the Fund’s approach to investing is to:
  - Optimise the return consistent with a prudent level of risk;
  - Ensure that there are sufficient resources to meet the liabilities; and
  - Ensure the suitability of assets in relation to the needs of the Fund.
- 2.2 The Fund’s funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.
- 2.3 The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed, but will take account of future salary and/or inflation increases.
- 2.4 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. It plays an important role in meeting the longer-term cost of funding, and how that cost may vary over time. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities. This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

- 2.5 It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.
- 2.6 Within each major market the Fund's investment managers will maintain a diversified portfolio of securities through direct investment or via pooled vehicles. For direct investments, an Investment Management Agreement is in place for each investment manager, which sets out the relevant benchmark, performance target and asset allocation ranges, together with further restrictions. For pooled vehicles, appropriate governing documentation is in place for each pooled fund.
- 2.7 The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:
- Suitability given the Fund's level of funding and liability profile;
  - The level of expected risk;
  - Outlook for asset returns.
- 2.8 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The Committee has adopted a rebalancing policy which is triggered if the Fund's asset allocation deviates by 5% or more from the strategic allocation.
- 2.9 In order to avoid excessive rebalancing, the assets will not be brought back to the absolute strategic benchmark, but to a position that is approximately half way between the tolerance level and the target allocation. This also takes into consideration that there is a time lag between reporting a variance, and the rebalancing of the funds.
- 2.10 If rebalancing is triggered, the assets will be rebalanced back to within 2.5% of the strategic asset allocation.
- 2.11 In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Pensions Committee may decide to suspend rebalancing temporarily. The priority order for funding rebalancing is to first use surplus cash, followed by dividend and or interest income and lastly using sales of overweight assets. The Pensions Committee will seek the written advice of the investment adviser with regard to rebalancing and detailed distribution of cash or sale proceeds.

### **3 Investment of money in a wide variety of investments**

#### **Asset classes**

- 3.1 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.
- 3.2 The Committee reviews the nature of the Fund's investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.
- 3.3 The Fund's target investment strategy is set out in Table 1 below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

**Table 1: Strategic benchmark allocation**

Asset class	Benchmark Proportion %	Maximum %
<b>Global Equity</b>	40.0	45.0
<b>Multi Asset</b>	22.5	40.0
<b>Property</b>	10.0	15.0
<b>Infrastructure</b>	7.5	15.0
<b>Bonds &amp; Cash</b>	20.0	25.0
Total	100.0	

3.4 At 31 December 2019, the expected return of this portfolio over a 20-year time horizon was 5.0%p.a. with an expected volatility of 12.9%p.a. This volatility includes an assumed diversification benefit. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

### **Managers**

3.5 The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

3.6 The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The current manager benchmarks are set out in Appendix 2 to this Statement. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects the composition of their respective benchmark indices.

## **4 Risk management**

4.1 The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has a risk management programme in place that aims to help it identify the risks being taken and has put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

4.2 The principal risks affecting the Fund are set out below. We also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

### **Funding risks**

4.3 Asset values may not increase at the same rate as liabilities with an adverse impact on the funding position. A Funding Strategy Statement ("FSS") is prepared every three years as part of the triennial valuation and the Committee monitors the Fund's investment strategy and performance relative to the growth in the liabilities at mid-cycle to the triennial valuation. The following key risks have been identified:

- **Financial mismatch:** The Committee recognises that assets and liabilities have different sensitivities to changes in financial factors. To mitigate the risk an investment strategy is set which provides exposure to assets providing inflation protected growth as well as cash flow generating assets that match the Fund's liabilities.

- **Changing demographics:** This relates to the uncertainty around longevity. The Council recognises there are effectively no viable options to mitigate these risks and assesses the impact of these factors through the Funding Strategy Statement and formal triennial actuarial valuations.
- **Systemic risk:** The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

4.4 The Committee measures and manages financial mismatch in two ways:

- As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis will be revisited as part of the 2019 valuation process. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.
- The Committee also assesses risk relative to liabilities by monitoring the delivery of returns relative to a strategic benchmark. The current strategic benchmark is the return on index-linked Government bonds plus 1.8% per annum, which is consistent with the discount rate used by the Actuary to value the Fund's liabilities.

4.5 The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to the Committee's own views and the level of risks associated with these assumptions to be assessed.

4.6 The Committee seeks to mitigate systemic risk through a diversified portfolio but recognises that it is not possible to make specific provision for all possible eventualities that may arise under this heading.

#### **Asset risks**

4.7 The Committee recognises that the Fund's investments are exposed to a range of asset specific risks which include:

- **Concentration risk:** This relates to the risk that the performance of a single asset class, investment or manager has a disproportionate influence on the Fund's performance. The Committee attempts to mitigate this risk by establishing a well-diversified strategic asset allocation, reviewing the investment strategy regularly and following a regular fund manager review process. The Fund's investment in multi-asset and absolute return mandates increases diversification further, with investment managers able to invest across the full spectrum of the investment universe in order to manage risk.
- **Liquidity risk:** Investments are held until such time as they are required to fund payment of pensions. The liquidity risk is being very closely monitored as the Fund matures (i.e. as the level of benefit outgo increases relative to the contributions received by the Fund). The Council manages its cash flows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met.
- **Currency risk:** The strategic asset allocation adopted by the Committee provides for an element to be held overseas to provide diversification and exposure to different economies. Such investment is however subject to fluctuations in exchange rates with an associated positive or adverse impact on performance.

- **Environmental, social and governance (“ESG”) risks:** The extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- **Manager risk:** Fund managers could fail to achieve the investment targets specified in their mandates. This is considered by the Committee when fund managers are selected and their performance is reviewed regularly by the Committee as part of the manager monitoring process.
- **Climate risk:** The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

4.8 The Fund’s strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund’s “actual allocation” does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund’s asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, the Committee has recognised the need for access to liquidity in the short term.

4.9 The Committee has chosen to manage currency risk as follows:

- Within equity mandates, the Committee has chosen to retain currency risk unhedged;
- Within multi-asset mandates, the managers employed have discretion to make use of currency exposure as a source of potential return although are mandated to deliver returns relative to a sterling objective. The Committee is therefore satisfied that currency risk is managed within these mandates but monitors currency exposures;
- Within real asset and private debt mandates, where overseas currency exposure arises, the Committee has chosen to hedge 100% of such currency exposure (subject to de minimis limits) given the expectation that income is a primary driver of return.

4.10 The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing a number of managers and making use of passive investment. The Committee assesses the investment managers’ performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

4.11 Details of the Fund’s approach to managing ESG and climate risks are set out later in this document.

#### **Other provider risks**

4.12 The Committee recognises that investment risk arises in the operational management of the Fund and have identified the following major risks:

- **Transition risk:** The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- **Custody risk:** The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- **Credit default:** This risk relates to the other party(s) in a financial transaction (the counterparty) failing to meet its obligations to the Fund. Where appropriate, the Committee

has set guidelines with its fund managers and its custodian to limit its exposure to counterparty risk.

- **Stock-lending risk:** The possibility of default and loss of economic rights to Fund assets.

4.13 The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

4.14 A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

## 5 The approach to pooling

5.1 The Fund is a shareholder and a participating scheme in the London CIV Pool. The London CIV is authorised by the FCA as an alternative I investment Fund Manager with permission to operate a UK based Authorised Contractual Scheme Fund. The structure and basis on which the London CIV Pool will operate was set out in the July 2016 submission to Government.

5.2 The Fund's intention is to invest its assets through the London CIV Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the 2016 submission to Government. The key criteria for assessment of Pool solutions is as follows:

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
- That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

5.3 At the time of preparing this statement, 62.5% of the Fund's assets were invested through the Pool or through passive vehicles facilitated by the Pool as set out in Table 2 below:

**Table 2: Pool allocations**

Asset class	Invested through pool %	Retained outside pool %
Global Equity	35.0	-
Multi Asset	27.5	-
Property	-	10.0
Infrastructure	-	7.5
Bonds & Cash	-	20.0
<b>Total</b>	<b>62.5</b>	<b>37.5</b>

5.4 The Fund has committed 7.5% of its assets to private debt mandates that were procured on a collaborative basis in conjunction with other London LGPS funds.

5.5 The Fund holds 17.5% of the Fund in property and infrastructure assets and these will remain outside of the London CIV pool as the cost of exiting these strategies would have a negative financial impact on the Fund. These will be held until such time as a cost-effective means of

transfer to the Pool is available or until the Fund changes asset allocation and makes a decision to disinvest.

- 5.6 Any assets not currently invested in the Pool will be reviewed at least annually to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

## **6 Approach to responsible investment including climate change considerations**

- 6.1 It is recognised that a range of factors, including ESG factors, can influence the return from investments. The Fund will therefore invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including ESG factors to the extent these directly or indirectly impact on financial risk and return. In making investment decisions, the Fund seeks and receives proper advice from internal officers and external advisers with the requisite knowledge and skills.
- 6.2 The Fund recognises that climate change is a systemic risk with the potential to directly impact economic, financial and social systems. Wherever possible, the Fund will directly consider the potential impact of climate risks on investment decision making within its investment portfolios.
- 6.3 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, climate and ethical considerations, into the decision-making process for all fund investments. Within passive mandates where the choice of index dictates the assets held by the investment manager and the manager has minimal freedom to take account of factors that may be deemed to be financially material, the Fund will review the index benchmarks employed for the Scheme on at least a triennial basis.
- 6.4 The Fund expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed. As a minimum, the Fund expects its managers (including the London CIV) to be signatories of the UN supported Principles for Responsible Investment and, where appropriate, the FRC UK Stewardship Code. The Fund will periodically review its managers' reporting against these standards, as well as other relevant industry standards, and will challenge its managers to improve their practices where the Fund deems it appropriate to do so.
- 6.5 The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of underlying investments with regard to the policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund such as corporate governance and environmental factors. The Fund will engage with its managers to understand what actions have been taken during regular review meetings.
- 6.6 Whilst the Fund expects that manager appointments in respect of new investments will be made through the London CIV, where the Fund makes its own appointments, responsible investment considerations will form a component of the manager selection decisions. The Fund will also encourage the London CIV to adopt best practice standards in the evaluation and monitoring of managers employed for investment.
- 6.7 Effective monitoring and identification of ESG issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes. Where appropriate, the Fund will work with the London CIV to promote collective engagement on behalf of all investors.
- 6.8 The Fund monitors the activity of its investment managers on an ongoing basis and will review the approach taken annually.

## **7 Consideration of non-financial factors and social investments**

- 7.1 At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee will review its approach to non-financial factors periodically, taking into account relevant legislation and the Law Commission's guidance on when such factors may be considered. Additionally, the Committee monitors legislative and other developments with regards to this subject and will review its approach in the event of material changes.
- 7.2 The Committee understands the Fund is not currently able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.
- 7.3 The Fund does not at the time of preparing this statement hold any assets which it deems to be explicit social investments; however, this ISS places no specific restrictions on the Fund in respect of such investments beyond those of suitability within the Investment Strategy as a whole and compatibility with the Committee's fiduciary duties. In considering any such investment in the future, the Committee will have regard to the Guidance issued by the Secretary of State and to the Law Commission's guidance on financial and non-financial factors.

## **8 Stewardship of assets**

- 8.1 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.
- 8.2 The Fund recognises that its equity assets are invested in pooled vehicles, it remains subject to the voting policies of the managers of these vehicles:
- Investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.
  - In respect of Fund investments outside the London CIV, the Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.
- 8.3 The Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2) (f). The Committee monitors the voting decisions made by all its investment managers and receive reporting from their advisers to support this on an annual basis.
- 8.4 The Committee will request its investment manager provide details of any change in policy on an annual basis. The Committee will review these changes and, where necessary, will challenge managers to explain the reasoning for any change.

- 8.5 The Committee reviews voting activity by its investment manager on an annual basis and may also periodically review managers' voting patterns. The Committee will challenge its managers to explain voting decisions on certain issues, particularly with regard to climate risk disclosure. The Fund will also incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council website.
- 8.6 At the time of production of the ISS the Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the Stewardship Code. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.
- 8.7 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to promote best practice by the CIV and enhance the level of engagement both with external managers and the underlying companies in which invests.

## Appendix 1: Investment beliefs

- 1 Clear and well-defined objectives are essential to reflect the Funds long-term strategic direction of travel and to help build a plan for achieving these objectives.
- 2 The Fund and its liabilities are long-term in nature and the Committee supports long term investing as a means of enhancing returns, reducing transaction costs, encouraging improved governance and delivering stable contribution rates.
- 3 Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.
- 4 Diversification between asset classes and regions is expected to provide greater stability to investment returns whilst diversification over many different managers needs to be balanced against the Committee's governance budget.
- 5 Returns net of fees and costs are more important than the absolute level of fees although investment managers' fees should be transparent and reviewed regularly.
- 6 Active management can add value although the performance of active managers should be measured over a sufficiently long investment horizon.
- 7 Benchmarks matter, particularly where they dictate the manner in which assets are invested.
- 8 Environmental, Social and Governance factors can pose financially material risks and it is incumbent on investment managers, where they have the discretion to do so, to ensure that such risks are reflected in decision making
- 9 Effective stewardship through informed voting and engagement can positively influence corporate behaviours although success is most likely to be achieved through greater collaboration
- 10 Climate change and the expected transition to a low carbon economy represents a long-term financial risk to Fund outcomes and should be considered as part of the Committee's fiduciary duty.
- 11 Decision making can be improved through the greater disclosure of information and the Fund should both support and demonstrate high standards of disclosure.
- 12 Excluding assets from portfolios for non-financial reasons is unlikely to be appropriate in the majority of circumstances.

## Appendix 2: Manager Benchmark allocations

Mandate	Manager	Allocation	Benchmark/Target
<b>Equity</b>			
Global equities	LGIM	7.5%	FTSE All World Index
Fundamental Equity	LGIM	7.5%	FTSE RAFI All World 3000 Index
Emerging Market Equity	LGIM	5.0%	FTSE Emerging Markets Index
Global equities	LCIV	15.0%	MSCI ACWI + 2% p.a.
<b>Multi Asset</b>			
Absolute Return	LCIV	15.0%	Preserve and grow capital (LIBOR +4% p.a.)
Diversified Growth	LCIV	12.5%	Bank Base Rate +3.5% (net)
<b>Property</b>			
UK property	UBS GAM	6.0%	MSCI All Balanced Funds WA Index
Global property	CBRE GIP	4.0%	UK CPI + 5% p.a. (net of fees)
<b>Infrastructure</b>			
Infrastructure	Stafford Capital	3.5%	UK CPI + 5% p.a. (net of fees)
Infrastructure	JP Morgan	4.0%	UK CPI + 5% p.a. (net of fees)
<b>Bonds</b>			
Index Linked Gilts	Royal London AM	5.0%	Over 5 year index linked gilts index
Multi Asset Credit	Royal London AM	7.5%	LIBOR +4% p.a.
Private Debt	Churchill	3.0%	LIBOR +4% p.a.
Private Debt	Permira	4.5%	LIBOR +4% p.a.

Note that the table includes ongoing mandates only.

## **MYNERS Principles for Investment Decision Making**

**The Pensions Committee will regularly review the Fund's compliance with this Statement of Investment Principles.**

The Action the Council has taken to meet the recommendations made in the Myner's report was last updated in July 2020 and is available as an appendix to this statement.

**MYNERS PRINCIPLES**

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
<b>1. Effective decision-making</b>		<b>SUMMARY: FULLY COMPLIANT</b>
<b>Administrating authorities should ensure that :</b>		
<b>(a) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and</b>	1) Administering authorities should have a designated group of elected members appointed to a committee to whom responsibility for pension fund activities have been assigned.	A designated group of elected members, reflecting the political balance of the Council, have been appointed to a Pensions Committee who are responsible for pension fund functions, as specified in the Council's constitution (Part 2).
<b>(b) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest</b>	2) Roles of the officers with responsibility for ensuring the proper running of the administration authority's and the committee's business should be set out clearly. The rules drawn up should provide a framework for the committee's code of business and include a process for the declaration of conflicts of interest.	Roles of the officers with responsibility for the day to day running of the administering authority's and the committee's business is specified in the Council's constitution (Part 3). Declarations of interests are considered at the start of each committee meeting.
	3) The committee should be governed by specific terms of reference, standing orders and operational procedures that define those responsible for taking investment decisions, including officers and/or external investment managers.	The Pensions Committee is governed by specific terms of reference and is specified in the Council's constitution (Part 3), officer functions are also specified (Part 3).
	4) The process of delegation should be described in the constitution and record delegated powers relating to the committee. This should be shown in a public document, such as the statement of investment principles.	The delegation process for the day to day running of the pension scheme is specified in the Council's constitution (Part 3). The Council's constitution is available via the Council's website: <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> , follow links council, democracy and council, constitution of the council or select the link below. <a href="#">Havering - Library folder - Constitution</a>
	5) In describing the delegation process, roles of members, officers, external advisors and managers should be differentiated and specified.	Roles of members, officers, external advisors and managers are no longer required to be specified in the ISS
	6) Where possible, appointments to the committee should be based on consideration of relevant skills, experience and continuity.	Where possible, appointments made to the committee are based on consideration of relevant skills, experience and continuity.

**MYNERS PRINCIPLES**

<b>Principle</b>	<b>Best Practice Guidance (CIPFA)</b>	<b>Havering Position/Compliance</b>
	7) The committee should ensure that it has appropriate skills, and is run in a way designed to facilitate effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals. The adoption of a training plan and an annual update of training and development needs would represent good practice to demonstrate that the committee is actively managing the development of its members. A statement should appear in the annual report describing actions taken and progress made.	Structured training of elected members ensures that members are proficient in investment issues. The Council incorporates training within its forward looking business plan for the fund. Forward looking business plan is presented at the first Pensions Committee meeting of the financial year and reported in the Pension Fund Annual Report. Members agreed to completing the CIPFA's Knowledge and Skills self-assessment of training needs. The training plan incorporates the outcomes of the self-assessments. Following the establishment of a Local Pension Board (LPB) a joint training strategy will be developed that will incorporate training of Pension Committee members with LPB members, where appropriate.
	8) The committee review its structure and composition regularly and provide each member with a handbook containing committee's terms of reference, standing orders and operational procedures. It is good practice to establish an investment or other subcommittee to provide focus on a range of issues.	Council recommends that the membership of the Pensions Committee remains static for the life of their term in office to facilitate knowledge continuity and helps to maintains expertise within the committee. Elected members are provided with a copy of their roles and responsibilities.
	9) The committee may wish to establish subcommittees or panels to take responsibility for progressing significant areas of activity between meetings.	The committee has not established any subcommittees as the Pensions Committee focuses only on the activities of the pension fund. The Council does have a pension panel that exercises discretions within the LGPS and deals with the Internal Dispute Resolution Procedure regulations.
	10) The committee should obtain proper advice from suitably qualified persons, including officers. The CFO should assess the need for proper advice and recommend to the committee when such advice is necessary from an external advisor. The committee should ensure that it has sufficient internal and external resources to carry out its responsibilities effectively.	The Pensions Committee has appointed two advisors – Investment advisor and Actuarial advisor. The Pension Fund Manager (finance) provides in house support to members. The Pension Committee is also supported by the Statutory Section 151 and the Council's Pension Administration and payroll sections. Internal and external resources are considered as part of the business plan.
	11) Allowances paid to elected members should be set out in a published allowances scheme and reviewed regularly.	Members of the Pensions Committee expenses are reimbursed in line with the Council's constitution (Part 6 - 'Members Allowance Scheme')

**MYNERS PRINCIPLES**

<b>Principle</b>	<b>Best Practice Guidance (CIPFA)</b>	<b>Havering Position/Compliance</b>
	12) Employees appointed as member representatives should be allowed adequate time off from normal duties to attend meetings.	Havering Council's conditions of service permits special leave up to a number of specified days for employees who act as a member of a publicly elected body.
	13) Papers and related documentation should be clear and comprehensive, and circulated to members of the committee sufficiently in advance of the meeting.	Committee policy established and ensures that target dates for report clearance and agenda dispatch targets are met. Members receive agendas five working days prior to meeting date.
	14) The <b>CFO</b> should be given the responsibility for the provision of a training plan and ensure that members are fully aware of their statutory & fiduciary duties.	The Training Plan is incorporated within the Business Plan and includes a log of training undertaken and attendance. Indicative future training plans are also included in the Business Plan.
	15) The <b>CFO</b> should ensure that a medium term business plan is created and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan should be submitted to the committee for consideration.	The Business Plan is considered by the Pensions Committee and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The Business Plan also incorporates the training plan.
	16) Business plan to review the level of internal and external resources the committee needs to carry out its functions.	Medium term Business Plan is considered by the Pensions Committee. The Business Plan includes the outcome of an internal review of resources, when appropriate.
	17) Administrating Authorities are required to prepare, publish and maintain statements of compliance against a set of good practice principles for scheme governance and stewardship.	The Pension Fund prepares, publishes and maintains a Governance compliance statement which shows the extent to which the administrating authority complies with the principles and is reviewed annually.
	18) Administrating authorities are required to publish a Governance Compliance Statement in accordance with CLG guidance.	The Governance Compliance Statement is included within the Annual Report and is available on the Council's website: <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> (under Council, democracy and elections, council budgets and spending, then Pension Fund) or select the link to the pension's page below.  <a href="#">Pension Fund Page</a>

**MYNERS PRINCIPLES**

<b>Principle</b>	<b>Best Practice Guidance (CIPFA)</b>	<b>Havering Position/Compliance</b>
	19) The fund's Administration Strategy documents should refer to all aspects of the committee's activities relevant to the relationship between the committee and the employing authorities.	In line with regulations, the fund currently does not have an administration strategy; consideration of adopting this strategy is reviewed regularly.
<b>2. Clear objectives</b>		<b>SUMMARY: FULLY COMPLIANT</b>
	The committee should:	As part of the Valuation process consideration is given, with full consultation of the fund's actuary, to :
<b>(a) An overall investment objective (s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and these should be clearly communicated to advisors and investment managers.</b>	1) demonstrate that in setting an overall objective of the fund it has considered: the fund's liabilities in the context of expected net contribution inflows; the adequacy of the fund's assets to meet its liabilities; the maturity profile of the fund's liabilities and its cash flow situation.	the fund's liabilities in the context of the expected net contribution inflows; adequacy of the assets to meet its liabilities; maturity profile and its cash flows;
	2) consider the nature of membership profiles and financial position of the employers in the fund and decide, on the advice of actuaries, whether or not to establish sub funds.	membership profiles; financial position of the employers and whether or not to establish a sub fund;
	3) seek to include the achievement of value for money and efficiency in its objectives and all aspects of its operation	value for money;
	4) with the <b>CFO</b> need to give consideration to the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The responsibility of the actuary to keep employer contribution rates as constant as possible over time is the primary means of achieving this.	and the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time.
		The Fund's investment policies and objectives are laid out in the Funding Strategy Statement (FSS) and can be found on the Councils website, <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> , council, democracy and elections, council budgets and spending, then pension fund or by selecting the link below.  <a href="#">Pension Fund Page</a>

**MYNERS PRINCIPLES**

<b>Principle</b>	<b>Best Practice Guidance (CIPFA)</b>	<b>Havering Position/Compliance</b>
	5) consider its own appetite for risk and that of the employers in the fund when considering advice on the mix of asset classes and on active and passive management. Consider all assets classes currently available to members.	The Pensions Committee considers, in consultation with the fund's investment advisor, its own appetite for risk when setting the investment strategy and considers the mix of asset classes and weighs up the risk v return in considering whether the assets are managed on a passive or active basis. The Investment Strategy currently includes a mix of different asset classes which are managed actively and passively.
	6) take proper advice and should appoint advisors in open competition and set them clear strategic investment performance objectives. The committee should state how the advisors' overall performance will be measured and the relevant short, medium and longer term performance measurement framework. All external procurement should be conducted within the EU procurement regulations and the administrating authority's own procurement rules.	The Pensions Committee appoints external advisors in line with EU procurement rules and the administrating authorities own procurement rules. The committee states how performance is to be measured for the advisors and a service review is undertaken and reported to the committee annually. At the 12 November 2019 pensions committee meeting it formally adopted the format as set out in the Pensions Regulator "trustee guide to: setting objectives for investment consultancy services" to comply with CMA "order" 2019
	7) also demonstrate that it has sought proper advice, including from specialist independent advisors, as to how this might be expressed in terms of the expected or required annual return on the fund and how it should be measured against stated benchmarks.	After full consultation with the Council's Actuary and Investment advisors a clear financial and therefore fully measurable investment objective for the fund has been set.
	8) consider when it would be desirable to receive advice based on an asset/liability study and make appropriate arrangements.	The Pensions Committee commission the fund's investment advisor and actuary to undertake an asset/liability study as appropriate, when compiling the investment strategy
	9) evaluate the split between equities and bonds before considering any other asset class. It should state the range of investments it is prepared to include and give reasons why some asset classes may have been excluded. Strategic asset allocations decision should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objectives.	All asset classes were considered as part of the investment strategy review process and the range of investments are included in the Fund's ISS.

**MYNERS PRINCIPLES**

<b>Principle</b>	<b>Best Practice Guidance (CIPFA)</b>	<b>Having Position/Compliance</b>
	10) have a full understanding of the transaction-related costs incurred, including commissions, and have a strategy for ensuring that these costs are properly controlled.	Transaction costs are disclosed in the statement of accounts. Havering Pension Fund is working towards encouraging ALL of its managers to adopt the voluntary adherence to the Transparency Code
	11) Understanding transaction-related costs should be a clear consideration in letting and monitoring a contract and where appropriate, independent and expert advice should be taken, particularly in relation to transition management.	Understanding transaction costs are considered and where appropriate expert advice would be sought. Costs are considered in the decision making process when any changes to the investment strategy are under discussion.
	12) The use of peer group benchmarks should be for comparison purposes only and not to define the overall fund objective.	The committee uses the services of State Street Global services (SSGS) (up to September 2019) and Northern Trust from the 1 October 2019 for independent monitoring of performance against benchmarks. Peer group benchmark performance provided by Pensions & Investment Research Consultants (PIRC) is used for comparison purposes only.
<b>3. Risk and liabilities</b>		<b>SUMMARY: FULLY COMPLIANT</b>
<b>a) In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</b>	The committee should:	
<b>b) These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</b>	1) set an overall investment strategy for the fund that: represents its best judgement of what is necessary to meet the fund's liabilities given its understanding of the contributions likely to be received from employer (s) and employees; takes account of the committee's attitude to risk, and specifically its willingness to accept underperformance due to market conditions.	A full investment strategy review was carried out following the actuarial valuation results in 2016. The Fund has formulated its own asset allocation based on identified liabilities particular to the fund. The Fund's investment strategy was adopted having considered the members attitude to risks and are covered in the ISS and FSS. It is
	2) ensure that its investment strategy is suitable for its objectives and takes account of the ability to pay of the employers in the fund.	

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**MYNERS PRINCIPLES**

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
	3) consider the extent to which the cash flow from the fund's assets should attempt to match the liabilities and the relevant timing. It should also consider the volatility of returns it is prepared to accept.	anticipated that small adjustments may be made to the ISS once the 2019 valuation results are finalised
	4) be aware of its willingness to accept underperformance due to market conditions. If performance benchmarks are set against relevant indices, variations in market conditions will be built in, and acceptable tolerances above and below market returns will be stated explicitly. Benchmarks are likely to be measured over periods of up to seven years.	The Fund in aggregate has a liability related benchmark (strategic benchmark). However for individual mandates, the fund managers have a specific benchmark (tactical benchmark) and a performance target that may be based on broad indices or composites. The targets are shown in the Fund's ISS.
	5) believe that regardless of market conditions, on certain asset classes, a certain rate of return is acceptable and feasible.	
	6) state whether a scheme specific benchmark has been considered and established and what level of risk, both active and market risk, is acceptable to it.	Specific benchmarks are considered as part of any investment strategy review and monitored on an on-going basis.
	7) receive a risk assessment in relation to the valuation of its liabilities and assets as part of the triennial valuations. Where there is reasonable doubt during performance monitoring of the fund about valuation of assets and liabilities the <b>CFO</b> should ensure that a risk assessment is reported to the committee, with any appropriate recommendations for action to clarify and/or mitigate the risks.	The Fund receives a risk assessment as part of the Valuation process with full consultation of the Fund's Actuary. Performance is monitored and reported to the committee on a quarterly basis and includes recommendations for action where appropriate. Liabilities are considered as part of the triennial valuations and mid valuations, however cash flow is monitored monthly and reported to committee quarterly.
	8) at the time of the triennial valuations, analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities. The committee should also ask this question of its actuaries and other advisors during discussions on performance.	

**MYNERS PRINCIPLES**

<b>Principle</b>	<b>Best Practice Guidance (CIPFA)</b>	<b>Havering Position/Compliance</b>
	9) use reports from internal and external auditors to satisfy itself about the standards of internal control applied to the scheme to its administration and investment operations. Ensuring effective internal control is an important responsibility of the CFO.	The external auditors' opinion is included in the Pension Fund Annual Report. Internal control audits for pensions are undertaken frequently by internal auditors and are reported to Audit Committee. Any identified issues would be reported to the Pensions Committee. Audited Internal Control reports are submitted by the Investment Managers and checked by officers for matters of concerns.
	10) The fund's Statement of Investment Principles should include a description of the risk assessment framework used for potential and existing investments.	The Pension Fund's ISS includes a description of the risk assessment framework.
	11) Objectives for the overall fund should not be expressed in terms that have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.	Objectives for the overall fund are set having regard to: the advisability of investing fund money in a wide range of investments; the suitability of particular investments and types of investments and the results of asset/ liability modelling.
	12) The Annual Report of the pension fund should include an overall risk assessment in relation to each of the fund's activities and factors expected to have an impact on the financial and reputational health of the fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of any residual risk.	The Pension Fund Annual Report includes an overall risk assessment in relation to each of the fund's activities and includes a copy of the Risk Register. This will be reported periodically to the Pensions Committee. The Risk Register is designed to be a living document and is included as a standing item on the Fund's Local Pension Board Agenda. It is reported periodically to the Pensions Committee.
<b>4. Performance assessment</b>		<b>SUMMARY: FULLY COMPLIANT</b>
	<b>Investments</b>	
<b>a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors</b>	The committee should:	
<b>b) Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members</b>	1) explicitly consider, for each asset class invested, whether active or passive management would be more appropriate; where it believes active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the	As part of any investment strategy review the Pension Fund considered and adopted its own asset allocation in full consultation with the Fund's investment advisor, it considered and has adopted active and passive management and appropriate targets and risk controls set.

**MYNERS PRINCIPLES**

<b>Principle</b>	<b>Best Practice Guidance (CIPFA)</b>	<b>Having Position/Compliance</b>
	freedom to pursue genuinely active strategies; if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection.	
	2) explicitly consider, in consultation with its investment manager (s), whether the index benchmarks are appropriate, and in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies	Benchmarks are set in agreement with the fund's investment manager (s)
	3) Where active management is selected, divergence from a benchmark should not be so constrained as to imply index tracking (i.e. passive management) or so wide as to imply unconstrained risk.	
	4) Performance targets in relation to benchmark should be related to clear time periods and risk limits and monitoring arrangements should include reports on tracking errors.	Performance monitoring reports are presented to the committee quarterly and covers the latest quarter, rolling one year and three year performance. In line with the reporting cycle, the Committee will see one fund manager at meeting unless there are performance concerns for individual managers. Where appropriate fund managers will report tracking errors
	5) Although returns will be measured on a quarterly basis a longer time frame (three to seven years) should be used to assess the effectiveness of the fund management arrangements and review the continuing compatibility of the asset/liability profile.	The asset /liability profile is considered at each triennial valuation.
	6) Investment activity in relation to benchmark should be monitored regularly to check divergence and any impact on overall asset allocation strategy.	In addition to officer reports, the investment advisor monitors and reports quarterly to the Pension Committee on performance, personnel, process and organisational issues of fund managers. The fundamental risk of the investment strategy not delivering the required – net of fee- return is measured quarterly in terms of the overall financial objective.

**MYNERS PRINCIPLES**

<b>Principle</b>	<b>Best Practice Guidance (CIPFA)</b>	<b>Havering Position/Compliance</b>
	7) Returns should be obtained from specialist performance agencies independent of the fund managers.	The Pension Fund uses the services of SSGS Performance Services (up to 30 Sept 19) and Northern Trust from 1 October 2019 who independently report against the overall fund and individual manager returns on a quarterly basis. Performance returns are monitored against fund manager returns and discrepancies are investigated. The Fund also uses the Services of PIRC to provide LGPS universe comparisons.
	8) Investment manager returns should be measured against their agreed benchmark and variations should be attributed to asset allocation, stock selection, sector selection and currency risk, all of which should be provided by an independent performance measurement agency	Each quarter, SSGS Performance Services/ Northern Trust measure fund manager returns against their set benchmarks and variations are attributed to asset allocation and stock selection. Relative risk is also measured and the degree of the manager deviating from the benchmark is included in the performance report.
	9) In addition to the overall fund returns the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed (e.g. equities by country, fixed interest by country and type etc.).	The Pension Fund does not measure fund returns on an asset class basis because the focus is on how individual manager performance contributes to the overall fund performance. However the weightings in each asset class are monitored and reported.
	10) The use of peer group benchmarks (such as CIPFA/WM) may not be appropriate for directing a mandate of a manager insofar as they infer a common asset liability structure or investment requirement. Such benchmarks can be used for comparative information.	PIRC performance returns against peer group benchmarks are used for comparison purposes only.
	11) The mandate represents the instruction to the manager as to how the investment portfolio is to be managed, covering the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.	The mandate agreed with the investment manager includes how it is to be managed and covers the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.
	<b><u>Advisors</u></b>	
	12) The committee should devise a performance framework against which to measure the cost, quality and consistency of advice received from its actuaries. It is advisable to market test the actuarial service periodically.	

**MYNERS PRINCIPLES**

<b>Principle</b>	<b>Best Practice Guidance (CIPFA)</b>	<b>Havering Position/Compliance</b>
	13) It is necessary to distinguish between qualitative assessments (which are subjective) and quantitative reviews which require the compilation of series of data and are therefore more long term by nature.	Annual service assessments are undertaken for the services provided the Fund's actuary and advisors. They are measured against a set of criteria adopted by the Pension Committee. Objectives for the Investment consultant have now been formulated to be in line with the Competition and Markets Authority (CMA) Order 2019.
	14) Consultants should be assessed on a number of issues including the appropriateness of asset allocation recommendations, the quality of advice in choosing benchmarks and any related performance targets and risk profiles. The quality and appropriateness of the investment managers that are recommended and the extent to which advisors are proactive and consistent in recommending subsequent changes.	
	15) When assessing managers and advisors it is necessary to consider the extent to which decisions have been delegated and advice heeded by officers and elected members	
	<b>Decision-making bodies</b>	
	16) The process of self-assessment involves both officers and members of the committee reviewing a range of items, including manager selection, asset allocation decisions, benchmarking decisions, employment of consultants and best value outcomes;	Pensions Committee performance is reviewed as part of the Annual Report. Performance can be measured by the success or otherwise of the strategy put in place and the individual performance of investment managers appointed by the committee, and full compliance with governance requirements including attendance at all training sessions.
	17) the objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved.	
	18) The committee should set out its expectations of its own performance in its business plan. This could include progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to administration of the committee's business such as:	The Business Plan sets out the expectations of the committee.
	19) attainment of standards set down in CIPFA's knowledge and skills framework and code of practice; achievement of required training outcomes; achievement of administrative targets such as dates for issuing agendas and minutes.	Achievement of training outcomes are self assessed by the Pensions Committee. Targets such as dates for issuing agendas and minutes are strictly adhered to. Achievement of administrative targets are reported in the Pension Fund Annual report.

**MYNERS PRINCIPLES**

<b>Principle</b>	<b>Best Practice Guidance (CIPFA)</b>	<b>Havering Position/Compliance</b>
	20) This assessment should be included in the fund's Annual Report.	The assessment of the committee expectations and training are included in the Annual Report
<b>5. Responsible ownership</b>		<b>SUMMARY: PARTIALLY COMPLIANT</b>
<b>Administrating authorities should:</b>		
<b>a) recognise, and ensure that their partners in the investment chain adopt, the FRC's UK Stewardship Code</b>	1) Policies regarding responsible ownership must be disclosed in the statement of investment principles which must be contained the annual report.	Policies on Social Environmental and ethical considerations are disclosed in the ISS, a copy of which is also included in the Pension Fund Annual Report.
<b>b) include a statement of their policy on responsible ownership in the statement of investment principles</b>	2) Responsible ownership should incorporate the committee's approach to long term responsible investing including its approach to consideration of environmental, social and governance issues.	The Pension Committee has considered socially responsible investments and the view has been taken that the fund's investment managers to integrate all material financial factors into the decision making process for fund investments.
<b>c) report periodically to scheme members on the discharge of such responsibilities.</b>	3) The committee should discuss the potential for consideration of environmental, social and governance issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performances.	On the 19 March 2019 the Pensions Committee established and published a Statement of investment Beliefs which reflects the broad views of committee members in regard to ESG .Over the long term, the Pensions Committee requires the investment managers to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. The Fund are members of LAPFF
	4) Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues e.g. LAPFF.	
	5) It is important to ensure that through the terms of an explicit strategy that an authority's policies are not overridden, negated or diluted by the general policy of an investment manager.	The ISS is distributed to fund managers so that they are aware of the overall strategy. Fund managers are included in the consultation process if there are major changes.
	6) Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisors to assist compliance in	Fund managers have been given delegated authority to vote in accordance with their proxy voting policies. Fund Managers report voting activity quarterly and made available for the Pensions Committee to review.

**MYNERS PRINCIPLES**

<b>Principle</b>	<b>Best Practice Guidance (CIPFA)</b>	<b>Havering Position/Compliance</b>
	engagement. Measuring effectiveness is difficult but can only be achieved by open monitoring of action taken	
	7) The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the committee's policy.	Consideration of compliance will need to be given for future appointments. For existing investment managers, where applicable they are compliant or work is well underway to becoming compliant.
	8) The committee should engage with, and consider the implications of, the UK Stewardship Code on a comply or explain basis	Whilst the Fund is not signatories to the Stewardship Code , the Committee fully endorses the principles laid down in the UK Stewardship Code
	9) The committee should also ensure that external partners in the investment chain (advisors, consultants, investment managers, etc.) adopt the UK Stewardship Code insofar as it relates to their activities on behalf of the fund.	The UK Stewardship Code is directed to institutional investors (asset owners and asset managers with equity holdings in UK listed companies) and should apply on a comply-or-explain basis. Currently all of the funds UK asset managers and service providers have adopted the code. The 2012 signatories to the code will be valid until the first signatory list is published in March 2021 under the new code launched in January 2020.
	10) The United Nations Environment Programme Finance Initiative (UNEP FI) has published Principles for Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the six principles and regularly assess themselves against a comply or explain framework.	The UNPRI is voluntary and applies on a comply or explain basis. All but two of the fund's asset managers have adopted the code.
<b>6. Transparency and reporting</b>		<b>SUMMARY: FULLY COMPLIANT</b>
<b>Administrating authorities should:</b>	The committee should:	
<b>a) act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives</b>	1) ensure that its Governance Compliance Statement is maintained regularly. It should actively challenge any non- compliance and be very clear about its reasons for this and be comfortable with the explanations given.	The Governance Compliance Statement is considered and reviewed by the Pensions Committee on a regular basis. Any non-compliance is reported and necessary actions included.

**MYNERS PRINCIPLES**

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
<b>b) provide regular communication to scheme members in the form they consider most appropriate.</b>	2) have a comprehensive view of who its stakeholders are and the nature of the interests they have in the scheme and the fund. There should be a clearly stated policy on the extent to which stakeholders will take a direct part in the committee's functions and those matters on which they will be consulted.	The Governance Compliance Statement includes a statement on the extent to which stakeholders will take a direct part in the Pensions Committee's functions. Stakeholders are consulted and notified on major strategic and legalisation matters.
	3) build an integrated approach to its own governance and to communicating this and all other aspects of its work to its stakeholders.	The work of the Pensions Committee is publicly available on the Council's website at <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> , follow links for council & democracy, committees, then pension committee. There is also a dedicated page on the Council's website for the Pension Fund under the page for council and democracy. How the work is communicated to its stakeholders is included in the fund's Communication Strategy, select link below to see the pension's page on the council's website.  <a href="#">Pension Fund Page</a>
	4) seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. The full range of available media should be considered and used as appropriate.	Havering has undertaken partnership working with the London Pension Fund Authority who have developed a website to enable pension sharing best practices across the London Boroughs at <a href="http://www.yourpension.org.uk">www.yourpension.org.uk</a> . Havering Pension Fund is also members of the CIPFA Pensions Network and the London Pension Fund Forum which are good sources of sharing best practices.
	5) compare regularly its annual report to the regulations setting out the required content and, if the report does not fully comply with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible.	The Pension Fund Annual Report is prepared in accordance with Regulation 57 of the LGPS Regulations 2013 which applied from 1 April 2014. It is also prepared in accordance with guidance published by CIPFA/PRAG 2019 edition.
	6) The Funding Strategy (FSS), the Statement of Investment Principles (SIP) and the Governance Compliance Statement are core source documents produced by the fund to explain their approach to investments and risks.	The FSS, the ISS and the Governance Compliance Statement are available on the Council's website at <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> and are included on a dedicated page for the Pension Fund under the link for council and democracy, or select the link below. This page also includes the Pension Fund's Communication Strategy. Where applicable reference to all these documents is made in other publications.  <a href="#">Pension Fund Page</a>

**MYNERS PRINCIPLES**

<b>Principle</b>	<b>Best Practice Guidance (CIPFA)</b>	<b>Havering Position/Compliance</b>
	With regard to the FSS and SIP, they should:	
	7) contain delegation process and the roles of officers, members, external advisors and managers should be differentiated. The process by which the overall fund allocation process has been determined and include reference to assumptions as to future investment returns; mandates given to managers should describe fees structures, scale of charges, whether ad valorem or fixed, performance element built in, stating the implications for risk control; copies should be made available and its availability made clear in publications.	The policies shows the delegation process and the roles of officers, members, external advisors and how managers are differentiated; the process by which the fund allocation has been determined and includes references to assumptions on future returns; mandates given to each manager are described, including fees; and implications for risk control.
	With regard to the Governance Compliance Statement it must include:	
	8) information on whether administrating authority delegates, the whole or part function; if it does delegate must state frequency of meetings, terms of reference, structure and operational procedures. It must also include whether the committee includes representatives of employing authorities and if so, whether they have voting rights.	The Governance Compliance Statement includes information on the administering authorities' delegation process and functions delegated to the Pensions Committee. It also includes the frequency of meetings, terms of reference, structure and operational procedures.
	9) details of the extent to which it complies with CLG guidance. Where the statement does not comply, reasons must be given. A copy of the statement must be sent to the CLG.	The Governance Compliance Statement also includes a table which shows the extent of compliance with DCLG guidance (now MHCLG).
	With regard to the fund's Communication Strategy it must:	
	10) set out the administering authority's policy on: the provision of information and publicity about the scheme to members, representatives of members and employing authorities; the format, frequency and method of distributing such information or publicity; the promotion of the scheme to prospective members and their employing authorities.	The Communication Statement includes: the administering authorities' policy on provision of information and publicity about the scheme, it also includes the format, frequency and method of distribution of such information.

# Pension Risk Register

## Havering

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September 2021

## 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.

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Likelihood	A				
	B				
	C				
	D				
	E				
	F				
		4	3	2	1
		Impact			

### Risk Likelihood

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

### Risk Impact

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

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
<b>RISK TITLE</b>								
<b>No 1. Risk of Inaccurate three yearly actuarial valuation</b>								
<b>Upper Level: S151 Officer/Director of Exchequer and Transactional Services</b>								
1.1	Lower Levels: PFM	Inappropriate assumptions used by actuary in calculations for valuation.	Inappropriate investment risk may be adopted and deficit not reduced.	B/2	Assumptions for valuation are in compliance with regulation.	E/3		
					Actuarial assumptions are open to challenge by officers			
					Valuation results are checked for consistency across LGPS funds via GAD S13 report.			
					Local Government benchmarking/comparisons of assumptions.			
					Valuation completed by a qualified professional actuary.			
			Potential for Council Tax increases to plug funding gap.		Robust, open procurement process in place for appointment of actuary.			Next Actuary procurement due 2023 or if current contract extended in 2025
					Annual review of actuary performance undertaken by Pensions Committee.		Service Review submitted to Pensions Committee 09 November 2021	

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
1.2	PFM/CMO	Poor quality data provided /personal data not maintained (gaps/incorrect)	Poor quality or Incomplete data could result in an Increase to employer contributions/ inappropriate contribution percentages calculated.	B/2	Data cleansing/Controls in place to ensure accuracy and completeness of data.	E/3		
					Annual Data Improvement plan implemented with agreement from LPPA and regular checking of the Pensions Regulator data scores to identify areas to be fed into the plan			
					Pensions Administration Strategy implemented with effect from 01/10/21 to clarify employer responsibilities regarding data accuracy and timeliness			
<b>RISK TITLE</b> <b>No 2. Risk of Incorrect / Inappropriate Investment Strategy</b>								
<b>Upper Level:S151 Officer</b>								
2.1	Lower Levels: PFM	Lack of or poor professional investment advice given or not taken	Potential for financial loss.	C/2	Investment Advisor appointed to advise the Fund and is instrumental in setting Investment Strategy.	D/3		
			Loss of investment opportunities					

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
			and adverse performance.					
			Growth opportunities are not maximised.					
2.2	PFM	Poor governance of Investment Advisor	Potential for financial loss.	C/2	Robust, open procurement process in place for appointment of Investment Advisor.	E/3		
					Investment Advisor performance is annually reviewed by the Pensions Committee and conforms to Competitive Markets Order.			
					Option to appoint an Independent advisor to undertake a health check and add robustness to the investment strategy as required.			
2.3	PFM	Lack of understanding and awareness (Pension Committee)	More investment risk may be taken to bridge a gap that does not	C/2	Investment strategy /risks continually assessed as part of the quarterly monitoring process by the Pensions Committee.	D/2		

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
			actually exist and could generate inefficiencies and unintended risks if not fully understood.		Investment Advisor attends each quarterly Pension Committee meeting.			
					Knowledge and skills training of LPB and Committee Members/Inductions carried out for new LPB and Pension Fund Committee member.		Pensions Committee & LPB -Training / Awareness ongoing - working towards full compliance with CIPFA. Knowledge and Skills framework.	
	PFM	Concentration risk by asset, region and sector/Lack of clear risk appetite.	Potential for a more risk adverse Investment Strategy when more risk is required or more investment risk may be taken to bridge a gap that does not actually exist.	C/2	Investment strategy /risks continually assessed as part of the quarterly monitoring process by the Pensions Committee. Diverse portfolio to reduce concentration.	E/3		
2.5	PFM	Based upon inaccurate actuarial valuation.	Pension deficit not reduced and potential	C/2	Liabilities analysed during inter-valuation period in addition to every three years.	E/3		

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
			for Council Tax increases.		Close working relationship is encouraged between actuaries and investment advisor in the development of the investment strategy.			
<b>RISK TITLE</b>								
<b>No 3. Risk of Failure of Investments to Perform In-Line with Growth Expectations</b>								
<b>Upper Level: S151 Officer</b>								
3.1	Lower Levels: PFM	Poor Fund Manager selection	Potential for losses to be incurred.	C/2	Fund Manager selection now undertaken by LCIV. Product reviews and due diligence undertaken by Investment Advisor before the Fund invests. Robust, Fund Manager selection process in place (Non LCIV where required)	E/3		
			Reputational risk from poor investments.					
3.2	PFM	Underperformance by Fund Manager (Non-LCIV)	Deficit reduction targets not met/Increased	C/2	Fund Managers attend Pension Committee to present quarterly performance reports	D/3		

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
			employer contributions.		and challenge by the Committee and Fund Investment Advisor.			
3.3	PFM	Poor investment advice provided to the fund or not taken	Deficit reduction targets not met.	C/2	Investment Advisor performance is annually reviewed by the Pensions Committee and close working relationship maintained with officers.	D/3	Service Review submitted to Pensions Committee 09 November 2021	
3.4	PFM	Negative financial market impacts/external factors/increased market volatility (i.e. 2008)/ uncertainty of Brexit, COVID 19 Pandemic	Economy downturn could result in general fall in investment values.	C/2	Diverse portfolio to reduce effects from market volatility.	D/3		
					Close monitoring of Markets by the Fund's investment Advisor in particular during COVID19 pandemic			
					Investment Advisor produces monthly market updates.			
3.5	PFM	Delays in the implementation of the strategy will reduce the effectiveness of the strategy and may impact growth.	The Fund's assets are not sufficient to meet its long term liabilities.	C/2	Investment advisor/Pensions Committee and officers review fund performance and asset class targets quarterly.	D/3		
3.6	PFM	Delays in compliance with capital calls on new	Penalty payments are	C/2	Robust processes in place to ensure capital	D/4		

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
		illiquid mandates could result in penalty payments.	charged to the pension fund.		calls are funded in a timely manner.			
3.7	PFM	Underperformance of LCIV Fund manager. Failure to achieve Asset Under Management Target	The fund's assets are not sufficient to meet its long term liabilities.	C/2	Monitoring meetings are held with Officers from Havering and LCIV client relations team regularly.	D/3		
					LCIV arrange regular meet the manager sessions that is open to Officers and Committee members.			
					LCIV run monthly business meetings to ensure the Fund is up to date with LCIV events. Summaries are reported back to the Pensions Committee quarterly.			
					LCIV attend Pension Committee, as part of the reporting cycle, to report on sub fund manager performance and LCIV updates. Open to challenge by the Committee and Fund Advisor.			
		Annual development		Development charges are reported at the LCIV				

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
			charges may not decrease in line with MTFS expectations.		General Shareholder meetings - attended and challenged by shareholder reps i.e. Councillors from each borough.			
3.8	PFM	Fund Managers – noncompliance to the Code of Transparency	Failure to disclose full management fees in the Pension Fund Annual Report and accounts.	C/3	Fund Managers complete the Code of Transparency compliance template annually.	D/3	Code of Transparency data sent to Investment Consultant for guidance on interpretation of data and further analysis.	
					Officers have access to the Byhiras client portal to check submission of templates.			
	PFM	Climate Risk Considerations	Failure to consider the extent of climate change could impact on financial outcomes.	C/2	The Committee have developed a set of Investment beliefs that recognises that climate change and the expected transition to a low carbon economy represents a long –term financial risk to Fund outcomes.	D/2	Monitor issuance of new TCFD reporting requirements.	
					Investment beliefs incorporated as part of the ongoing implementation of investment strategy and the Committee have			

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
					made a number of decisions to switch to less carbon intensity products.			
					The Pensions Regulator has set up a working party to consider guidance for pension schemes. The SAB is also expected to incorporate climate change considerations into its guidance for LGPS funds during 2020.		To monitor on – going discussions between tPR and Government regarding regarding Climate Change and expected guidance.	Following issuance of guidance, the Committee could consider actions including: <ul style="list-style-type: none"> <li>•Further training</li> <li>•Measuring exposure to and reporting.</li> <li>•Escalating engagement with investee companies on climate-related topics.</li> </ul>
3.10	PFM	Risk that MATS Consolidate existing Pension Fund memberships funded within various Local Authorities into a Pension Fund outside Havering.	If a request to transfer out from the Fund is granted by MHCLG, this could set a precedent for the sector and the potential wider impact on other employers	C/2	The Fund has responded to the consultation issued by MHCLG (now DLUHC) opposing the transfer on the grounds of the wider risks faced by the Fund.  If the Transfer request is granted the Fund will ensure data is correct	C/2	To monitor DLUHC actions re Transfer request from Oasis Community Learning.  To ensure contact with the Actuary regarding transfers and exit valuations.	

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
			who may also seek to transfer out. There will be an impact on cash flow and Investment Strategy as it is estimated that c10% of the Fund's assets and liabilities would transfer out if all existing MATS followed precedent		and work with the actuary to ensure that the settlement of the transfer is valued correctly for exit.			
<b>RISK TITLE</b>								
<b>No 4. Risk of Failure to comply with Legislative requirements</b>								
<b>Upper Level for All Risks S151 Officer/Director of Exchequer and Transactional Services</b>								
4.1	Lower Levels: PFM/CMO	Lack of appropriate skills/knowledge of tPR, MHCLG and CIPFA Guidance, Financial Regulations and accounting standards.	Potential for breach of legislation resulting in incurring financial penalties from the tPR/legal	C/1	Local Pension Board in place to oversee adherence to the Regulations and guidance.	E/3		
					Statutory policy documents reviewed annually to ensure			

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
		Unaware of legislative changes/Poor/ inaccurate interpretation of the regulations.	challenges/ Reputational Damage.		compliance with legislation.			
					Officers are members of the CIPFA Pensions Network and participate in the CIPFA Pensions Network/Peer forums to share knowledge & awareness.			
					Active participation in Legislative Consultations where appropriate. Legislative changes are reported to the Pensions Committee where required.			
					Induction carried out for new Pension Fund Committee and Local Pension Board members.			
					External and in house training provided where required. Continual personal development for all Committee/LPB members and Officers.		Personal development for all Committee/LPB members and officers is on-going	
							Training matrix in place however cannot be fully applied until all	

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
Page 271							CIPFA K&S questionnaires are completed by Local Pension Board and Pensions Committee members.	
					Access to specialist pension media sources.			
					Financial requirements are subject to external and internal audit with no qualifications.			
	PFM/CMO	Key person dependency	Loss of corporate knowledge expertise in both administration and finance management.	B/2	Experienced personnel in place at present.	D/2	One Source is undergoing a Transformation exercise that will be addressing succession issues.	
4.3	PFM/CMO	Failure/inability to administer the pension scheme in accordance with regulations.	Non-compliance could result in an adverse external audit report.	C/2	Local Pension Board in place to oversee adherence to the Regulations and guidance.	E/3		
					tPR undertook a review of the Fund's day-to-day practices and operations in 2019 with no overall concerns and officers have since			

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
					implemented recommendations arising from their review.			
					Experienced personnel in place.			
					Attendance at seminars/training to ensure up to date regulatory requirements.			
					Financial statements are subject to external and internal audit with no qualifications.			
<b>RISK TITLE</b>								
<b>No 5. Risk of inability to Manage/Govern the Pension Fund and Associated Services.</b>								
<b>Upper Level for all Risks: S151 Officer/Director of Exchequer and Transactional Services.</b>								
5.1	Lower levels: PFM/CMO	Staffing issues: Loss of corporate knowledge/expertise. Long-term sickness absence. Increase in staff turnover. Lack of resource (Staffing/financial). No knowledge base to store	Negative impacts upon service provision. Potential for Time delays and Increased costs due to "buying in" external expertise.	B/2	The London Borough of Havering delegated the pension administration service to Lancashire County Council who have engaged the Local Pensions Partnership Administration (LPPA) to undertake their pension portfolio.	D/2	Succession planning scheduled for key personnel.	
					LPPA have case type dedicated teams to			

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
		experiences/ information.			ensure expertise is maintained			
					Continuous pension training for LPB, Pensions Committee members and staff.			
					Participates in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness.			
					Onesource has introduces a knowledge sharing platform (the Finance Academy)			
					Guidance from external agencies (some will be at a cost).			
					Members of Local Authority Pensions Web.			
5.2	PFM	LCIV resourcing – LCIV staff turnover.	Undermines investor confidence in the LCIV.	C/2	Continued monitoring of LCIV in place.	D/3		
5.3	PFM/CMO	ICT failure/Disaster Recovery.	Loss of infrastructure. Failure of all ICT services.	B/1	ICT/ Disaster Recovery in place. Constant security upgrades to computer systems at both	D/3		

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
					Havering, Pensions & Treasury and LPPA.			
					Implementation of COVID-19 working restrictions has maintained service continuity.			
					Use protected portals to send personal information.			
					Internal Firewalls recommended.			
					GDPR good practice is undertaken.			
5.5	PFM/CMO	Cyber Security Risk	Ransomware risk.	B/1	Internal Audit for oneSource Cyber Security carried out in Oct 2018.	D/3		
					LPPA hold a current Cyber Essentials Certificate, issued 13/07/2021. They also undertake regular penetration testing with a CREST accredited company with any vulnerabilities being remediated			
5.5	PFM/CMO	Functionality of Oracle Cloud	Pension Fund Accounts	C/2	Oracle team aware of Pension fund system requirements.	D/2	Monitoring ongoing with regard to system	

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
		causes pension fund system issues.	system malfunction.		Systems tested at each stage of implementation. Pension Finance Staff undertook testing of General Ledger Revenue codes.		reconciliations and balance sheet requirements.	
5.6	CMO	Poor Pension fund administration by the outsourced service LPPA.	Service Delivery failure leading to client/customer complaints and Reputational damage.	B/1	Formal agreement in place with administrator, including SLA's.	E/3		
					CMO in post to monitor the administration work of LPPA.			
					Service is subject to external auditor report of pension's admin processes. LPPA supply an annual internal assurance report where the control objectives link in to the Pensions Regulator Code of Practice 14.			
5.7	CMO	Poor administration by the employers/payroll providers in the fund.	Service delivery failure leading to client/customer	C/2	Local Pension Board is in place to assist the administering authority in effective and efficient governance of the Havering Pension Fund.	E/3		

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
			complaints and Reputational damage.		Pensions Administration Strategy in place to clarify the responsibilities of scheme employers and provide timescales for the submission of data.			
					LPPA have a programme of employer training and a dedicated employer engagement team to provide support.			
					CMO maintains regular contact with scheme employers to provide support			
			Inaccurate data provided give rise to inaccurate data and financial reputational consequences such as actuary to set contribution rates with a high margin of error.		CMO in post to monitor the administration work of LPPA.			
					Actuary undertake data checks/cleaning as part of triennial review process.			
					Data cleanse checks undertaken as part of the year end pensions administration process			
					Annual data improvement plan implemented with			

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
					agreement from LPPA and regular checking of the Pensions Regulator data scores to identify areas to be fed into the plan			
			Pension costs and payments delayed or incorrect.		Monthly reconciliations to monitor cash flow carried out.			
					CMO monitors benefit payments from the Fund			
			Admission agreements not completed by the transfer date.		Employer onboarding process in place Service handover completed when process of admitting bodies to the fund transferred from LPPA to in-house on 1 April 2021.		Strengthen the process for onboarding new employers and Bond reviews.	
					Bond or guarantee reviews in place and reviewed every three years as part of valuation process.			
5.8	PFM	Failure/inability to undertake the accounting of the pension scheme appropriately.	Qualified opinion on the accounts by external auditor.	C/2	Pension Fund accounts subject to external audit.	E/3		
					Experienced personnel in place.			

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
					Pension Fund uses the service of an external custodian to verify asset values and performance.			
					Fund Managers performance is monitored quarterly. Fund Managers present at Pension Fund Committee meetings.			
					Monitoring of internal control reports of fund managers to ensure operations administered correctly.			
					Attendance at accounting seminars/training to ensure adherence to guidance and regulations.			
5.9	PFM/CMO	Poor communications with stakeholders.	Disaffection and actions against the Council.	C/3	The Council has in place a complaints system to address complaints via the website that goes all the way up to the pension's ombudsman.	E/3		
					The Pension Fund has a communications strategy that is updated			

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
					annually and reviewed every 3 years. The strategy is reviewed by the local pensions board and approved by the pensions committee			
					LPPA has an LGPS dedicated website that contains all relevant information for scheme members and employers.			
					The Fund has a pensions dedicated page within the Havering Council website where fund specific information is published and the Fund publishes an Annual Report			
5.10	PFM/CMO	Excessive charges by suppliers.	Fund incurring unnecessary costs.	C/2	Third Party Fee Invoices checked prior to payment.	E/4		
5.11	CMO	The Data migration from Altair to UPM (Universal Pensions Management) in September 2022 is not complete and accurate.	Member's records may not be accurate which would leave LPPA unable to	B/1	LPPA have a dedicated project team and robust project plan in place that includes rigorous testing of data migration and calculations.	D/2	LPPA are providing regular updates to clients and employers as to the progress of the project.	

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
			calculate the correct level of pension benefits.		The project risk register has been presented to the local pensions board			
<b>RISK TITLE</b>								
<b>No 6. Risk of failure to on board or exit employers/members effectively.</b>								
<b>Upper Level for all Risks:S151 Officer/Director of Exchequer and Transactional Services</b>								
Page 280	Lower Levels: PFM/CMO	Delays in internal processing of documentation/ admission agreements.	Contribution delays from the employers & members until onboarding has been completed impacts cash flow.	C/2	Monthly contribution schedules maintained by the Havering Pensions Team.	E/3		
					Reconciliations between General Ledger and contribution schedules undertaken monthly.			
					Reconciliations between General Ledger and Altair undertaken quarterly with any queries referred to LPPA/CMO for investigation.			
					Pensions Administration Strategy in place to clarify the responsibilities of scheme employers and			

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
					provide timescales for the submission of contribution payments.			
			Late payments of pension benefits.		CMO works closely with LPPA. Carries out spot checks to review LPPA work on a regular basis.			
					Pensions Administration Strategy in place to clarify the responsibilities of scheme employers and provide timescales for the submission of data			
			Adverse External Audit Opinion on internal controls.		Service handover completed when process of admitting bodies to the fund transferred from LPPA to in-house on 1 April 2021.			
					LPPA performance report presented to the Local Pension Board at every meeting.			
					Escalation to Heads of Service where required.			
6.2	PFM/CMO	Poor communications with stakeholders/	Potential breach of regulations	C/2	Script in place to deliver to new Academy employers, with	E/3		

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
		lack of understanding by employers with regard to their responsibilities.	and member entitlement. Potential for litigation.		feedback process in place.			
					Admission policy and manual completed in November 2017			
					TUPE manual completed in November 2017.			
					Pensions Administration Strategy in place to clarify the responsibilities of scheme employers			
					CMO maintains contact with employers to provide dedicated point of contact.			
					Database maintained on all contact details for LGPS communications.			
			Employer's liabilities may fall back onto other employers and ultimately local taxpayers.		Actuarial assessment completed for all new admission requests to assess the level of financial risk.			
		Bonds and suitable guarantees put into place to protect the Fund in case of default.						
6.3	CMO		Incorrect member data	B/2	LPPA raise queries with scheme employers.	E/3		

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
		Member data incomplete or incorrect.	causes processing delays.		Member self-service – online tool for members to check and update personal data.			
					Annual data cleansing and checks are undertaken as part of the year end administration process			
					Data is reviewed as part of the triennial valuation exercise.			
					Reconciliations between General Ledger and Altair undertaken quarterly identifies member mismatches.			
<b>RISK TITLE</b> <b>No 7. Risk of Pension Fund Payment Fraud</b>								
<b>Upper Level for all Risks: S151 Officer/Director of Exchequer and Transactional Services.</b>								
7.1	Lower Levels: CMO	Pension overpayments arising because of non-notification in change of circumstances.	Financial loss. Reputational damage of Pension Administration and Council.	C/3	Participate in the National Fraud Initiative (bi-annually).	E/4		
					Signed up for DWP database Tell us Once – DWP inform Havering of deaths relating to members of the Havering LGPS fund.			

Risk No.	Risk Owner	Details of Risk	Consequences (Effect) of not addressing the risk	Risk Likelihood/ Impact prior to Controls	Controls/Mitigations	Risk Likelihood/ Impact post Controls	Actions/ Recommendations	Review of Actions taken to date and further actions identified
					Monitored on a daily basis			
					September 20 – Mortality Screening outsourced to an external supplier.			
					Address checked for deferred pensions prior to payment.			
					Process is in place to investigate return of payment by banks.			
					Internal audit checks carried out.			
	PFM/CMO	Internal staff fraud/ Staff acting outside of their levels of authorisation.	Potential for financial loss.	C/2	Segregation of duties.	E/3		
					Pension Fund bank account reconciled to General Ledger monthly.			
					Internal audit checks carried out.			
					Internal disciplinary process in place.			
7.3	PFM/CMO	Conflict of interest.	Inappropriate decision making.	C/2	Register of interests declarations covered at each Local Pensions Board/Committee meetings.	E/3		

<b>Abbreviations</b>	<b>Description</b>
CMO	Contract Monitoring Officer - Caroline Berry
CIPFA	Chartered Institute of Public Finance and Accountancy
DLUHC	Department for Levelling Up, Housing & Communities
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
LPPA	Local Pensions Partnership Administration
MHCLG	Ministry of Housing, Communities and Local Government
PFM	Pension Fund Manager – Finance – Debbie Ford
SAB	Scheme Advisory Board
SLA	Service Level Agreement
TCCFD	Task Force on Climate-related Financial Disclosures
TR	The Pensions Regulator

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ANNUAL REPORT CHECKLIST		YES   NO   N/A	COMMENTS
Set out below is a summary of must, should and may disclosures for LGPS annual reports.			
<b>1 Scheme management and advisors</b>			
The report <b>must</b> list the names and contact details for:			
1-1	The officers responsible for the fund	yes	pgs 6- 7
1-2	Investment managers used by the fund	yes	pgs 6- 7
1-3	The fund custodian	yes	pgs 6- 7
1-4	AVC providers	yes	pgs 6- 7
1-5	The fund actuary	yes	pgs 6- 7
1-6	Legal advisors	yes	pgs 6- 7
1-7	Bankers to the fund	yes	pgs 6- 7
1-8	The external auditor	yes	pgs 6- 7
1-9	The scheme administrators	yes	pgs 6- 7
1-10	Any independent advisors	yes	pgs 6- 7
<b>2 Risk management</b>			
The report <b>should</b> explain:			
2-1	How risk management is integrated within the governance structure	yes	pgs 9 -13
2-2	How risks are identified, managed and reviewed. This might include for example;	yes	pgs 9 -13
2-3	A summary of the key risks and what actions are being taken to mitigate those risks	yes	pgs 9 -13
2-4	How assurance is sought over third party operations, eg ISAE 3402 (f AAF 01/06) and SSAE16/70 reports	yes	pgs 9 -13
2-5	Levels of assurance gained from internal audit work	yes	pgs 9 -13
2-6	How investment risk is managed.	yes	pgs 9 -13
<b>3 Financial performance</b>			
The report <b>must</b> provide an overview of the fund's financial performance which includes:			
3-1	Current year performance against budget, highlighting and explaining any significant variances	yes	Pgs 14 -15
3-2	a brief commentary on the movement in non investment assets and liabilities(or a cross- reference to where this can be found in the financial statements)	yes	pg 16
3-3	Information about the level of contributions as a % of pensionable pay, the timeliness of receipt of contributions and whether the option to levy interest on overdue contributions has been exercised	yes	pgs 17 -19
3-4	Forecast v outturn report on the pension fund cash flows	yes	Pg 16
3-5	Details of pension overpayments, recoveries and any amounts written off, including the results of participation in (NFI) exercises (data matches, overpayments identified, actions taken, etc).	yes	psg 20 - 21

ANNUAL REPORT CHECKLIST		YES   NO   N/A	COMMENTS
The financial overview <b>should</b> also include:			
3-6	Details of the net operational expenses of administering the fund, identifying as a minimum staff costs (both direct and internal recharges), premises, IT, supplies and services, costs of democracy and any other costs and income	yes	pgs 14-15
3-7	Details of benefits payable, transfers in and out, plus income from contributions from members and employers, showing a net inflow or outflow to the fund.	yes	pg 16
3-8	The financial overview <b>may</b> also include longer term forecasts of income, expenditure and cash flows.	N/A	included in valuation
<b>4 Pension scheme administration</b>			
The annual report <b>must</b> include the following:			
4-1	Analysis of membership data (active, deferred pensioners and leavers)	yes	pg 42
4-2	A list of contributing employers analysed by admitted and scheduled bodies showing the value of contributions received from both employer and employees during the year	yes	pgs 18 -19
4-3	Details of new pensioners analysed by ill health, early and normal retirements.	yes	pg 42
The annual report <b>must</b> include a description of key administration activities including:			
4-4	Services provided to members, pensioners and employing bodies, together with an explanation of how these services are delivered	yes	pgs 38 - 39
4-5	A statement on value for money	yes	pg 38
4-6	A summary of key performance data and qualitative information	yes	pg 40
4-7	A summary of key financial information and staffing levels.	yes	pg 41
Key performance data <b>should</b> include:			
4-8	Case load analysis	yes	pg 41
4-9	Accuracy of membership data	yes	pg 38
4-10	The percentage of pensions transactions completed on time against targets	yes	pgs 38 - 39
4-11	Satisfaction levels of employers and members		
4-12	Numbers of complaints and complaints as a percentage of workload.	yes	pg 39
Financial indicators of administrative efficiency <b>should</b> include:			
4-13	Unit costs per member	yes	pg 42
4-14	Benchmarking of unit costs against appropriate comparators.	yes	pg 38
Key staffing indicators <b>should</b> include:			
4-15	Staff numbers and trends	yes	pg 41
4-16	Staff to fund-member ratios	yes	pg 41
4-17	Average cases per member of staff	yes	pg 41
4-18	Benchmarking of staffing levels against appropriate comparators.	NO	consideration for the 2022/23 report
A CIPFA working group has recommended that the following information is collected and the results <b>should</b> be summarised in the annual report.			

ANNUAL REPORT CHECKLIST		YES   NO   N/A	COMMENTS
4-19	Time taken to process the following:		data not held by LPPA in the format required to produce
	☑ Acknowledgement of death	NO	
	☑ Death benefit and/or survivor pension	NO	
	☑ Provide pension or CETV estimate	NO	
	☑ Payment of lump sum retirement	NO	
	☑ Calculate and notify deferred benefits	NO	
	☑ Transfers in and out	NO	
	☑ Calculate and pay a refund	NO	
	☑ Send formal notification of joining.	NO	
4-20	Actual time taken compared to legal requirements and internal target/SLA KPI.	NO	
4-21	Numbers of each case type processed each year and outstanding at the year end.	yes	pg 41
4-22	Average caseload per FTE.	NO	pg 41
4-23	Satisfaction levels of employers and members.	yes	pg 38
4-24	Administration, oversight and governance – unit costs per member.	yes	pg 42
4-25	Staff to fund-member ratios.	yes	pg 41
4-26	The annual report <b>should</b> summarise helpdesk arrangements and information available to members and employees via websites, self-service options and other information sources	yes	pg 38
4-27	☑ Contact details	yes	pg 113
4-28	☑ Explanation of any outsourcing arrangements	yes	pgs 6 & 42
4-29	☑ Monitoring arrangements for gathering assurance over the effective and efficient operation of these operations.	yes	pgs 11 & 41
4-30	This section <b>may</b> also contain:		
	☑ An outline of the fund's internal dispute resolution procedure, any new dispute cases arising during the year and how these have been resolved ☑	yes	pg 39
	☑ Contact details for the Pensions Advisory Service and the Pensions Ombudsman ☑	yes	pg 113
	☑ Information on how to access any policies or guidance produced by the LGPS for employing bodies or members.	yes	pg 17, pg 42
<b>5 Investment Policy and Performance Report</b>			
5-1	The planned asset allocation <b>must</b> be stated along with the actual asset allocation for the financial year.	yes	pg 23
5-2	Investment performance <b>must</b> be set out for each asset class and fund manager against the benchmarks set for one year, three years and five years.	yes	pg 28
5-3	Pension funds <b>may</b> wish to explain any responsible investment policies and any environmental, social and governance policies along with voting arrangements and other initiatives such as engagement with companies and any collaborative ventures with other funds.	yes	pgs 30 - 34

ANNUAL REPORT CHECKLIST		YES   NO   N/A	COMMENTS
5-4	The report <b>may</b> also: <ul style="list-style-type: none"> <li>Outline the fund's approach to the UK Stewardship Code</li> </ul>	yes	pg 32
5-5	List any bodies of which the fund is member, subscriber or signatory, such as NAPF, LAPFF, UKSIF, UNPRI, etc	yes	pg 31
5-6	Record how voting rights have been exercised	yes	pgs 31 -32
5-7	Explain what actions have been taken to pursue responsible investment aims	yes	pgs 31 -32
5-8	Explain actions taken to demonstrate compliance with the Myners principles or any other code of principles adopted.	yes	pgs 207 - 221 - Myners compliance statement
5-9	This section of the report <b>must</b> also include details of investment administration and custody, describing who looks after which part of the portfolio if this has not already been reported elsewhere.	yes	pg 25
<b>6 Investment management costs</b>			
6-1	Pension funds <b>should</b> take steps to identify fees and costs incurred by third parties which impact on overall return achieved, and explain these in the annual report.	yes	pg 37
6-2	The annual report <b>should</b> help readers understand the relationship between costs, risks and return associated with the pension fund portfolio. Areas for consideration might include the costs and related returns from:	no	pg 37 - no analysis undertaken
	Active v. passive portfolios	yes	
	Different asset classes including alternatives	yes	
	Pooled funds, layered funds and 'fund of fund' arrangements		
	Different fund managers.	yes	
6-3	The annual report <b>should</b> explain how the pension fund is responding to the Scheme Advisory Board's Transparency Code and what use is being made of information obtained from fund managers using the Scheme's template reports.	yes	
<b>7 Post pool reporting</b>			
7-1	Investments analysis by fund manager <b>must</b> be split between assets transferred, and not yet transferred, to national pools.	yes	pgs 100 - 102
7-2	The annual report <b>must</b> include details of pool set up costs eg:	partial	pg 100 (summary level only - detail not provided)
	Share purchase/subscription costs		
	Other working capital provided eg loans		
	Staff costs		
	Accommodation costs		
	Other services provided eg IT costs		
	Transition fees and taxes		
	Recruitment		
	Legal		
	Procurement		
7-3	Details of set up costs <b>should</b> be presented alongside the total savings expected from pooling and the in-year and cumulative savings achieved to date.	yes	pg 100

ANNUAL REPORT CHECKLIST		YES   NO   N/A	COMMENTS
7-4	Analysis of ongoing investment management costs must be split between pooled and non-pooled assets	yes	pg 101
7-5	To measure the extent to which pension funds have saved fees as a result of pooling, the annual report <b>should</b> include details of ongoing fee savings based on the price and quantity variance methodology set out in the Post Pooling Guidance report.	yes	pg 100
7-6	Annual reports <b>should</b> compare gross and net investment yield for each class of asset, analysed between pooled and non-pooled investments and comparing actual return achieved during the year to the relevant passive return index (for quoted investments) or the local target return (for non-quoted investments).	yes	pgs 100 -101
7-7	Where tables are used to provide the data in 7-2 to 7-6 above, the tables <b>should</b> be clearly explained.	yes	pgs 100 - 102
7-8	Narrative commentary <b>should</b> explain changes to investment costs in terms of:	yes	pgs 100 - 102
	change in the value of assets under management and how this is split between pooled and non-pooled investments		
	Changes in investment strategies and asset allocations		
	Changes implemented as a result of pooling, such as re-balancing of direct vs pooled investments, changes in the split of active and passive investments, renegotiated fund mandates, new fee structures (eg changes to ad valorem fees) or new suppliers		
	Changes in the supplier market (eg regulation, competition, innovation)		
	Exceptional costs, including costs of establishing pools and transitioning to them		
	Increased transparency – changes in the way the information is presented		
	Any other factors		
7-9	Annual reports <b>must</b> include: the name and contact details of the regional pool operator	yes	pg 98
7-10	planned versus actual asset allocation – within the pool and otherwise.	yes	pg 23
	Annual reports <b>should</b> also include the following information relating to the regional asset pool:		
7-11	a summary of identified risks relating to pooling arrangements	partial	pg 228 - risk register
	A copy or summary of the annual report from the asset pool oversight committee	yes	pg 100
	The pension fund <b>may</b> also wish to disclose:		
7-12	How the pension fund and pool operator respectively are exercising voting rights and taking action to pursue responsible investment commitments	yes	pgs 31 -32
7-13	What action the pool operator is taking to demonstrate compliance with the Myners principles	yes	pgs 54 - 61
7-14	Information relating to knowledge and skills and training relevant to asset pooling.	yes	pgs 55 - 61
8	<b>Actuarial report</b>		

ANNUAL REPORT CHECKLIST		YES   NO   N/A	COMMENTS
8-1	The annual report <b>must</b> include a statement by the actuary setting out the pension fund's overall level of funding as reported at the last triennial valuation.	yes	pgs 45 -46
	It <b>should</b> also include:		
8-2	<input checked="" type="checkbox"/> summary of the last triennial valuation report and details of where the full version of the actuarial report can be obtained.	yes	pg 47
8-3	In addition the pension fund <b>may</b> wish to disclose: <input checked="" type="checkbox"/> the results of any interim valuations	yes	pg 47
8-4	<input checked="" type="checkbox"/> where such monitoring is undertaken, the results of any monitoring of key variables such as longevity experience, ill health retirements and use of discretionary powers impacting on the fund's solvency.	yes	pg 47
<b>9 Governance policy and compliance statement</b>			
	Regulation 31 of the Administration Regulations 2008 (Regulation 55 of The Local Government Pension Scheme Regulations 2013) prescribes the content of this statement which <b>must</b> be included in the annual report	yes	pg 51
	This section of the annual report <b>should</b> also include:		
9-1	An outline of the overall governance structure for the pension fund and the roles and responsibilities of each element within the structure (including whether the element is executive or advisory)	yes	pgs 49 - 50
9-2	Terms of reference for the pensions committee (or equivalent), local pensions board and related subcommittees or advisory panels	yes	pg 49
9-3	Membership of each panel/committee during the year with a matrix showing for each member:	yes	pgs 62- 63
9-4	<input checked="" type="checkbox"/> Voting rights	yes	pgs 49 - 50
9-5	<input checked="" type="checkbox"/> Attendance at meetings	yes	pgs 62- 63
9-6	<input checked="" type="checkbox"/> Training received during the reporting period.	yes	pgs 56 - 61
9-7	Policy and processes for managing any conflicts of interest.	yes	Pg 63
9-8	The annual report from the local pension board.	yes	pg 51
9-9	Annual reports <b>should</b> include some form of commentary to illustrate how governance works in everyday terms for the reader. This <b>may</b> include, for example:		
	<input checked="" type="checkbox"/> Explanations of how codes of conduct operate in practice	yes	pg 63
	<input checked="" type="checkbox"/> How the CIPFA Knowledge and Skills Framework has been applied	yes	pgs 54 -55
	<input checked="" type="checkbox"/> Details of training offered and take-up (training is mandatory for local pension board members but not for a pensions committee).	yes	training taken Pgs 56 - 61
9-10	how the fund and pool operator are meeting the requirements of the CIPFA/SOLACE <i>Good Governance Framework</i> .	yes	pgs 98 - 99
<b>10 Financial statements</b>			
10-1	The annual report <b>must</b> include the fund's full financial statements ie the fund account, net asset statement and disclosure notes.	yes	pgs 64 - 97
10-2	The annual report <b>must</b> also contain a copy of the external auditor's opinion on these accounts.	NO	pgs 111 -112 audit not yet commenced

ANNUAL REPORT CHECKLIST		YES   NO   N/A	COMMENTS
<b>11</b>	<b>Dealings with employing bodies</b>		
11-1	The annual report <b>must</b> include a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities). The data should be <b>shown</b> in tabular format.	yes	pgs 7- 8 & 20
	The annual report <b>should</b> set out the arrangements for dealing with employer bodies. Examples <b>may</b> include:		
11-2	Service standards set and agreed between the fund and each employer	yes	pg 103
11-3	The provision of named pensions contacts for the employer	yes	pg 113
11-4	An employer discretions policy document	N/A	avaialble on councils website
11-5	A new admissions policy	yes	pg 103
11-6	Pensions advice for employers entering into outsourcing/TUPE arrangements	yes	pg 42
11-7	Requirement for annual statements of compliance regarding the administration of the scheme by each employer	yes	Pg 103 reference to PAS
11-8	The timeliness of data submissions by the employer	yes	Pg 103 reference to PAS
11-9	The timeliness of employer responses to fund queries.	yes	Pg 103 reference to PAS
11-10	The report <b>should</b> set out any use of powers to seek compensation from employers in respect of any service standard breaches.	yes	pg 20
<b>12</b>	<b>Communications Policy Statement</b>		
12-1	For English and Welsh pension funds, Regulation 61 of the Administration Regulations requires them to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. This <b>must</b> be included in the annual report	yes	pgs 107 - 110 & Pgs 131 - 147

ANNUAL REPORT CHECKLIST		YES   NO   N/A	COMMENTS
<b>13</b>	<b>Funding strategy statement</b>		
13-1	Pension funds are required to prepare, publish and maintain funding strategy statements (FSS) under Regulation 58 of The Local Government Pension Scheme Regulations 2013) (Regulation 31 in Scotland). For the purposes of the pension fund annual report, the statement as it stood at the end of the reporting period <b>must</b> be reproduced in full.	yes	pages 104 & pages 148 - 193
	This section of the report <b>should</b> also include a commentary on matters relating to the implementation and application of the funding strategy statement during the period, such as:		
13-2	Implementation of any contribution increases	n/a	
13-3	Management of admitted bodies	yes	pg 103
13-4	Any bonds or any other secured funding arrangements entered into.	yes	pg 97 & pg 103
13-5	Links between the FSS and ISS should be set out in the annual report	yes	pages 104 -105
<b>14</b>	<b>Investment strategy statement</b>		
14-1	Pension funds are required to prepare, maintain and publish an investment strategy statement (ISS), which replaced the previous statement of investment principles (SIP) in 2016/17. The annual report <b>must</b> include the current version of the ISS.	yes	pages 194- 206
14-2	The Annual report <b>should</b> set out the extent to which the ISS and FSS meet statutory guidance and explain the reasons for any areas of non-compliance identified.	yes	pages 207 - 221 - Myners compliance statement
14-3	The ISS <b>should</b> explain how the pension fund intends to transition funds to the regional asset pool, setting out expected timings, mandates affected etc.	yes	pages 200 - 201
<b>15</b>	<b>Other material</b>		
	For example, funds <b>may</b> wish to include:		
15-1	The statement of compliance with the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills	yes	pages 53 - 61
15-2	Evidence to demonstrate compliance with the code of practice, reports on officer and member training undertaken during the year (if not reported elsewhere), skills and knowledge reviews, planned training events etc	yes	pages 55 - 61 - members only
15-3	The role played by internal audit in providing assurance and managing risk, and a summary of assurance activity undertaken during the year	partial	pg 11 - LPPA internal audit
15-4	Other policy documents or strategies in place or under development	yes	various - throughout
15-5	Commentary on how employer discretions have been exercised in the reporting period	no	
15-6	Glossary of commonly used pension fund terms to aid readers.	no	consideration for the 2022/23 report
15-7	Chairman's report.	yes	pg 3



## PENSIONS COMMITTEE

8 November 2022

**Subject Heading:**

**WHISTLEBLOWING REQUIREMENTS  
OF THE PENSIONS ACT**

**SLT Lead:**

**Dave McNamara**

**Report Author and contact details:**

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

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

**Policy context:**

Pensions Act 2004

**Financial summary:**

**None**

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

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

### **SUMMARY**

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

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

For administering authorities and employers, an initial requirement was to establish procedures to identify any breaches, and then evaluate and if appropriate report to the Regulator. These were put in place during 2005 and part of this procedure was to undertake an annual review. This represents the annual review for the year up to **30 September 2022**.

No possible breaches of law have been reported. Consequently, no reports have been made to TPR.

## RECOMMENDATIONS

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

## REPORT DETAIL

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

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

5. **TPR Code of Practice provided the following guidance:**

a) There is a requirement to report breaches

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

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

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

What makes the breach of material significance depends on:

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

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

c) The reporting arrangements are that:

- All reporters should have effective arrangements in place to meet their duty to report breaches of the law.
- Reliance cannot be placed on waiting for others to report.
- Breaches should be reported as soon as reasonably practicable.
- Failure to report when required to do so is a civil offence.

Havering via the Pensions Committee, previously agreed the following:

**6. Actions to ensure compliance / reporting**

- a) The named officer for reporting issues to within Havering is currently the Interim Statutory Section 151 Officer. Should he be notified of a breach he will set out a plan to:
- Obtain clarification of the law where it is not clear to the reporter;
  - Clarify the facts around the suspected breach where these are not known;
  - Consider the material significance of the breach taking into account its cause, effect, the reaction to it, and its wider implications, including, where appropriate, dialogue with the trustees or managers;
  - Establish an adequate timeframe for the procedure to take place that is appropriate to the breach and allows the full report to be made as soon as reasonably practicable;
- b) The nominated person (Pensions Projects & Contracts Managers, Exchequer & Transactional Services) will then review and assess if a report should be made to TPR. This will normally be within one month of receiving all the appropriate information.
- c) The nominated person (Pensions Projects & Contracts Managers, Exchequer & Transactional Services) will maintain a system to record breaches even if they are not reported to the Pensions Regulator (the principal reason for this is that the record of past breaches may be relevant in deciding whether to report future breaches); and
- d) In order to ensure there is a process for identifying promptly any breaches including those that are so serious they must always be reported, it was agreed that an annual assessment against the following will be carried out as part of the production of the Pension Fund accounts. This assessment has been carried out and confirms the following is acceptable.
- e) *In relation to protecting members' benefits:*
- Substantially the right money is paid into the scheme at the right time;  
*Confirmed via external audit of accounts*
  - Assets are appropriately safeguarded;  
*Confirmed via external audit of the accounts and Pension Committee monitoring*
  - Payments out of the scheme are legitimate and timely;  
*Confirmed via external audit of the accounts*

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

f) *In relation to promoting good administration:*

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

g) *In addition:*

- Whistle Blowing segment has been included in the annual report provided to scheme members signposting where to raise concerns.
- Fund Managers are requested to disclose any reportable governance issues as part of the Fund's monitoring process.
- The Financial Conduct Authority (FCA) regulates the London CIV and, in line with the requirements of the FCA has in place a range of policies and procedures to ensure good governance, in line with legislative and regulatory requirements. These include a whistleblowing policy. Regulatory oversight includes requirements to report to the Board and the FCA, and an oversight function exercised by the Depository.
- Procedures are in place for staff within the Borough dealing with the pension fund (this would include Finance, Accounting, Payroll and HR staff as well as Pension Administration staff) covering what they should do if they become aware of a possible breach and also (in very broad terms) whether there are any areas of pensions law etc. they would be expected to know about in their particular role.

- All Fund employers are aware of the whistleblowing requirements and is accessible via the councils website: [havering.gov.uk - whistle blowing procedure](https://havering.gov.uk - whistle-blowing-procedure)
  - The Pensions Projects & Contracts Manager, Exchequer & Transactional Services, will maintain a record of all breaches, assessments and actions taken and notify the named officer – the interim Statutory Section 151 Officer.
7. Should a breach occur the Pensions Committee will be notified setting out action taken and a full report presented at the next available Pensions Committee.

## **IMPLICATIONS AND RISKS**

### **Financial Implications and risks:**

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

### **Legal Implications and risks:**

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

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

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

**Human Resources Implications and risks:**

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

**Equalities implications and risks:**

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

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

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

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

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

**Background Papers List**

None

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## PENSIONS COMMITTEE

8 November 2022

**Subject Heading:**

**FUNDING STRATEGY STATEMENT  
2022**

**CLT Lead:**

**Dave McNamara**

**Report Author and contact details:**

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

**Policy context:**

[Debbie.ford@onesource.co.uk](mailto:Debbie.ford@onesource.co.uk)  
Administration Authority must prepare,  
maintain & publish a statement setting out  
their Funding Strategy Statement 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.

It also incorporates the Fund's approach to cessation and contribution reviews as set out in associated policy documents.

The FSS applies to **all** employers participating in the Fund

Appendix A to this report are exempt from publication by virtue of paragraph 3 of the Access to Information Procedure Rules set out in the Constitution pursuant to Schedule 12A Local Government Act 1972, as amended, as it commercially sensitive until such time the committee approves the draft for consultation.

## RECOMMENDATIONS

That the Committee:

1. Agree the draft Funding Strategy Statement 2022 attached as **Appendix A (PART EXEMPT)**.
2. Agree the associated draft Cessation Policy, attached as **Appendix B**
3. Agree the associated draft Contributions Review Policy, attached as **Appendix C**.
4. Agree the draft versions as stated above be issued for consultation.
5. If as a result of the consultation, material changes are required, the Committee is asked to delegate to the Statutory Section 151 officer in consultation with the Chair to approve the final version of the FSS.

## REPORT DETAIL

### 1. Background

- a. The Local Government Pension Scheme (LGPS) regulations 2013 section 58 require Pension Funds to maintain and publish a Funding Strategy Statement (FSS). The Authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate.
- b. The FSS should be completed and approved by the Pensions Committee prior to the completion of each valuation.
- c. The FSS is a high-level statement of an administering authority's approach to its funding strategy and has been prepared in conjunction with the Pension Fund's ("The Fund's") Actuary, having regard to guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) "*Preparing and Maintaining a Funding Strategy Statement (2016)*" and statutory guidance from the Department for Levelling Up, Housing and Communities (DLUHC) on preparing and maintaining policies relating to employer exit.
- d. Its purpose is to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
  - *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
  - *ensure the fund meets its **solvency and long-term cost efficiency objectives***
  - *take a **prudent longer-term view** of funding those liabilities.*
- e. The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.
- f. The draft FSS can be found attached as **Appendix A**.
- g. The government amended the LGPS Regulations 2013 in September 2020 (**LGPS (Amendment) (No.2) Regulations 2020**), which introduced new powers for administering authorities to review employer contributions between valuations, spread exit payments and set up Deferred Debt Agreements (DDAs).
- h. The introduction of the new powers is intended to help administering authorities manage their liabilities, ensuring that employer contribution rates are set at an appropriate level and that exit payments are managed, with steps taken to mitigate risks, where appropriate.
- i. There is no requirement on administering authorities to use any of the new powers. The amendments to the LGPS Regulations 2013 made by the 2020 Regulations require that an authority may do so only where it has set out its policy in its FSS. This is to ensure consistency and transparency.
- j. The FSS was reviewed in December 2020 and agreed at the 12 January 2021 pensions committee meeting, which incorporated the adoption of the new powers made by the 2020 regulations. As part of the FSS review these changes are now set out as separated policies to enable greater transparency and usability.
- k. The Cessation Policy, attached as **Appendix B**, sets out the authority's approach to dealing with circumstances when a scheme employer leaves the Fund and becomes an exiting employer (cessation event). Also sets out how the authority will deal with its discretion over the repayment of any deficits and surplus on cessation and the circumstances that permit Deferred Debt Agreements (defers the final cessation payment and the employer does not exit but has to continue to pay secondary contributions and at the end of DDA period will carry out a full cessation).
- l. The Contributions Review Policy, attached as **Appendix C** sets out the administering authority's approach to reviewing contributing rates between triennial valuations.

**2. 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.
- b. The DRAFT version of the FSS will be distributed to all participating employers in the Fund following agreement of the draft at this meeting. The consultation will be open for six weeks and the final version agreed no later than 31 March 2022.
- 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 the Statutory Section 151 officer in consultation with the Chair 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 Fund's Annual report.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

Any representations made by the employer and its letting authority/guarantor, under these regulations may lead to higher actuarial, legal and internal management costs.

There will be no additional costs to the Fund as these costs will be met by the employer.

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

The Fund also commissions Hymans, the Fund's actuary, to undertake employer risk profiling on an annual basis to set out the employer risks within the Fund. They estimate the funding level of each employer or pool of employers which can then be

used to assist the Fund in determining the risk to the Fund should the employer leave.

The employer risk profiling report covered the funding position as at 31 March 2022, most employers in the Fund are fully funded and/or have a clear guarantee provided by another employer in the Fund or the Department for Education and have therefore been rated as being a **low risk** in terms of the remaining employers being impacted should the employer leave.

The Fund currently has thirteen admitted bodies of which seven have a contract expiry date before March 2023 and will require cessation calculations in the near future. These fall within the low risk category.

No employers have been flagged as medium risk with only one employer being flagged a high risk employer.

High risk employers are defined as having funding levels below 100% on the Fund's ongoing basis with no guarantor or security in place to protect the Fund should they exit the Fund and be unable to meet a cessation debt.

Officers will be guided by the recommendation in the report to seek whether it can improve its position of the high risk employer through accelerating the employer's pace of funding, putting in place a guarantor and/or gaining security through either a bond or a charge on assets (if available).

The cost of producing the FSS and associated policies are met by the Pension Fund.

**Legal implications and risks:**

The substantive legislative framework is set out in within the FSS and its associated policies on Cessation and Contributions Review Policy and will not be repeated here.

The government amended the Local Government Pension Scheme (LGPS) Regulations 2013 in September 2020 (***Local Government Pension Scheme (Amendment) (No.2) Regulations 2020***), which introduced new powers for administering authorities to review employer contributions, spread exit payments and set up Deferred Debt Agreements (DDA). The use of these new powers are clearly set out in the FSS and associated policies 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.

**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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London Borough of Havering Pension Fund  
Funding Strategy Statement  
September 2022

DRAFT

# Contents

## London Borough of Havering Pension Fund – Funding Strategy Statement

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## Appendices

- Appendix A – The regulatory framework
- Appendix B – Roles and responsibilities
- Appendix C – Risks and controls
- Appendix D – Actuarial assumptions

# 1 Welcome to London Borough of Havering Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for London Borough of Havering Pension Fund.

The London Borough of Havering Pension Fund is administered by the London Borough of Havering Council, known as the administering authority. The London Borough of Havering Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2023.

There's a regulatory requirement for Havering Council to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact Debbie Ford at [debbie.ford@havering.gov.uk](mailto:debbie.ford@havering.gov.uk).

## 1.1 What is the London Borough of Havering Pension Fund?

The London Borough of Havering Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at [www.lgpsmember.org](http://www.lgpsmember.org). The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

## 1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

## 1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

### Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they cannot accrue benefits in another pension scheme, such as another public service pension scheme.

### Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund cannot refuse entry. The employer then decides which employees can join the scheme.

### Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements are not met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms are not defined under current regulations but remain in common use from previous regulations.

#### 1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at the pension fund's [website](#).

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund will not be able to pay benefits, so higher contributions would be required from employers.

#### 1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see [Appendix A](#))

#### 1.6 How is the funding strategy specific to the London Borough of Havering Pension Fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

## 2 How does the fund calculate employer contributions?

### 2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of two elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the fund's expenses.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in [Appendix D](#).

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

The fund permits the prepayment of employer contributions at the discretion of the administering authority and the fund's actuary.

### 2.2 The contribution rate calculation

**Table 2: contribution rate calculation for individual or pooled employers**

Type of employer	Scheduled bodies		CABs and designating employers		TABs*
	Local authorities	Academies	Open to new entrants	Closed to new entrants	(all)
<b>Funding target**</b>	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Ongoing
<b>Minimum likelihood of success</b>	60%	70%	75%	75%	50%-75%
<b>Maximum time horizon</b>	20 years	20 years	15 years or average future working lifetime, if less		Same as the letting employer

Type of employer	Scheduled bodies		CABs and designating employers		TABs*
	Local authorities	Academies	Open to new entrants	Closed to new entrants	(all)
<b>Primary rate approach</b>	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon				
<b>Secondary rate</b>	Monetary amount or percentage of pay at the discretion of the administering authority				
<b>Stabilised contribution rate?</b>	Yes	No	No	No	No
<b>Treatment of surplus</b>	Covered by stabilisation arrangement	Contributions kept at primary rate. However, reductions may be permitted at the ultimate discretion of the administering authority		Reduce contributions by spreading the surplus over the remaining contract term	
<b>Phasing of contribution changes</b>	Covered by stabilisation arrangement	Maximum of 3 years subject to the administering authority being satisfied as to the strength of the employer's covenant.			None

\* Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority

\*\* See [Appendix D](#) for further information on funding targets.

### 2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. If this is not appropriate, contribution increases or decreases may be phased. The fund may also adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for the local authority employer. On the basis of extensive modelling, the annualised employer contribution rates for the fund's local authority employer will be .....

### 2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy is available in [Appendix X](#). The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

### 2.5 What is pooling?

The administering authority will consider contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting

contributions in this way means that while the fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates are not disclosed to pooled employers, unless agreed by the administering authority.

If an employer leaves the fund, the required contributions are based on their own funding position rather than the pool average.

### **2.6 Administering authority discretion**

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

## 3 What additional contributions may be payable?

### 3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, unless otherwise agreed by administering authority.

### 3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

All employers in the fund have an allowance for ill-health strain costs. The fund monitors ill-health for each employer. If the cumulative cost of ill-health retirement in any financial year exceeds the allowance made at the previous valuation, the employer will be charged additional contributions on the same basis as non ill-health cases. Details are included in each admission agreement.

Employers may choose to use external insurance to manage ill-health early retirement costs. 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 contributions to the fund each year may be reduced by the amount of that year's insurance premium.

When an active member retires on ill-health early retirement, the claim 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.

## 4 How does the fund calculate assets and liabilities?

### 4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

### 4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in [Appendix D](#), the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

### 4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

## 5 What happens when an employer joins the fund?

### 5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

### 5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not (usually) transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. The fund may allow contribution pooling for academies who are part of the same multi-academy trust.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members attributable to the academy will transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

### 5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority.

#### 5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the fund.

#### 5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

The fund's admissions policy can be found at the pension fund's [website](#).

## 6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund will not pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund will not grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

## 7 What happens when an employer leaves the fund?

### 7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation payment won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

### 7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in [Appendix D](#).

- (a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in [Appendix D](#).
- (b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.
- (c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund cannot recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

The cessation policy is [available in Appendix X](#).

### 7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

Details of the fund's approach to exit credits is set out in the fund's cessation policy [in Appendix X.](#)

#### **7.4 How do employers repay cessation debts?**

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

Details of the fund's approach to deferred spreading and deferred debt agreements are set out in the fund's cessation policy [in Appendix X.](#)

#### **7.5 What if an employer has no active members?**

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

- a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis based on each employer's proportion of the fund's pensionable pay.
- b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers based on each employer's proportion of the fund's liabilities.

## 8 What are the statutory reporting requirements?

### 8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

### 8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

- (a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

### 8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

# Appendices

## Appendix A – The regulatory framework

### A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward
- support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**
- ensure the fund meets its **solvency and long-term cost efficiency** objectives
- take a **prudent longer-term view** of funding those liabilities.

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

### A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "persons the authority considers appropriate". This should include 'meaningful dialogue... with council tax raising authorities and representatives of other participating employers'.

The consultation process included issuing a draft version to participating employers.

### A3 How is the FSS published?

The FSS is made available to interested parties by:

- publishing on the administering authority's and fund's [website](#)
- sending copies to each employer
- sending copies to members of the local pension board
- sending copies to the fund's investment consultants
- making copies freely available on request.

The FSS is published on the pension fund's [website](#).

### A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any material amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

**A5 How does the FSS fit into the overall fund documentation?**

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at the pension fund's [website](#).

## Appendix B – Roles and responsibilities

### **B1 The administering authority:**

- 1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations
- 2 manages any conflicts of interest from its dual role as administering authority and a fund employer
- 3 collects employer and employee contributions, investment income and other amounts due
- 4 ensures cash is available to meet benefit payments when due
- 5 pays all benefits and entitlements
- 6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy
- 7 communicates with employers so they understand their obligations
- 8 safeguards the fund against employer default
- 9 works with the fund actuary to manage the valuation process
- 10 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 11 consults on, prepares and maintains the funding and investment strategy statements
- 12 tells the actuary about changes which could affect funding
- 13 monitors the fund's performance and funding, amending the strategy statements as necessary
- 14 enables the local pension board to review the valuation process.

### **B2 Individual employers:**

- 1 deduct the correct contributions from employees' pay
- 2 pay all contributions by the due date
- 3 have appropriate policies in place to work within the regulatory framework
- 4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain
- 5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
- 6 make any required exit payments when leaving the fund.

### **B3 The fund actuary:**

- 1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency
- 2 provides information to the Government Actuary Department so they can carry out their statutory obligations
- 3 advises on fund employers, including giving advice about and monitoring bonds or other security
- 4 prepares advice and calculations around bulk transfers and individual benefits

- 5 assists the administering authority to consider changes to employer contributions between formal valuations
- 6 advises on terminating employers' participation in the fund
- 7 fully reflects actuarial professional guidance and requirements in all advice.

**B4 Other parties:**

- 1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement
- 2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS
- 3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
- 4 governance advisers may be asked to advise the administering authority on processes and working methods
- 5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures
- 6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

## Appendix C – Risks and controls

### C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

Details of the key fund-specific risks and controls are logged in the fund's risk register which can be found on the pension fund's [website](#). Risks are regularly monitored and reported on to the Pension Committee and Board.

### C2 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy and was an early adopter of TCFD reporting in the LGPS and are developing a broad climate action plan. The fund's latest TCFD report can be found on the pension fund's [website](#).

In addition, the fund included climate scenario stress testing in the contribution modelling exercise for the local authority as at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

Further details on the fund's approach to climate risk (and other risks) can be found at the pension fund's [website](#).

## Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

### D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

### D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

**Table: Summary of assumptions underlying the ESS, 31 March 2022**

TBC

### D3 What financial assumptions were used?

#### Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
<b>Ongoing basis</b>	All employers except closed community admission bodies	x.x%
<b>Low-risk exit basis</b>	Community admission bodies closed to new entrants	x.x%

**Discount rate (for funding level calculation as at 31 March 2022 only)**

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of  $x.x\%$  applies. This is based on a prudent estimate of investment returns, specifically, that there is an  $xx\%$  likelihood that the fund's assets will return  $x.x\%$  pa over the 20 years following the 2022 valuation date.

**Pension increases and CARE revaluation**

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was  $x.x\%$  pa on 31 March 2022.

**Salary growth**

The salary increase assumption at the latest valuation has been set to  $x.x\%$  above CPI pa plus a promotional salary scale.

**D4 What demographic assumptions were used?**

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

**Life expectancy**

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by  $+0.25\%$  to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of  $1.5\%$  pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

### Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	60% of maximum tax-free cash
50:50 option	1% of members will choose the 50:50 option.

### Males

TBC

### Females

TBC

### D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

Details of what basis applies in what circumstances can be found in the fund's cessation policy in [Appendix X](#).

#### Low-risk exit basis

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a [x.x%](#) margin. The discount rate cannot be higher than the fund's ongoing discount rate.
2. The RPI assumption is derived as the geometric difference between the yields on long dated index linked bonds and gilts. The CPI assumption is derived by subtracting 1.0% from RPI up to 2030 and 0.1% afterwards.
3. Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

#### Ongoing basis

The financial and demographic assumptions underlying the ongoing basis are set out in Sections D3 and D4 above.

# London Borough of Havering

## Policy on cessations

Effective date of policy	
Date approved	
Next review	

### 1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the fund's discretionary policies (as described in Section 3 - Policies).

#### 1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the fund.
- To provide information about how the fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

#### 1.2 Background

As described in Section 7 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the fund. On cessation from the fund, the administering authority will instruct the fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

#### 1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the fund ([Regulation 64](#)) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the fund.

- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
  - a) Notify its intention to make a determination to-
    - (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
    - (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
  - b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.
  
- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
  - a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
  - b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
  - c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
  - d) Any other relevant factors
  
- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.
  
- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.
  
- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.
  
- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the fund from the exiting employer.
  
- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.
  
- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, [Regulation 25A](#) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the Transitional Regulations”) give the fund the ability to levy a cessation debt on employers who have ceased participation in the fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the fund expects to deal with any such cases.

This policy also reflects [statutory guidance](#) from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the fund.

## 2 Statement of Principles

This Statement of Principles covers the fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the fund.
- the fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per Section 7 of the FSS and Section 3.1 below). This would extinguish any liability to the fund by the exiting employer.
- the fund's key objective is to protect the interests of the fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.
- employers are responsible for all costs incurred as a result of ceasing participation including actuarial and administration expenses.

## 3 Policies

On cessation, the administering authority will instruct the fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in Section 4 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see [3.2 Repayment flexibility on exit payments](#) below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see [3.3 Exit credits](#) below).

### 3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities	Low risk exit basis <sup>1</sup>	Shared between other fund employers
Academies	Low risk exit basis	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	Ongoing basis	Letting authority (where applicable), otherwise shared between other fund employers
Admission bodies (CABs)	Low risk exit basis	Shared between other fund employers (if no guarantor exists)

<sup>1</sup>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 (e.g. machinery of Government changes), these cessation principles would apply.

### Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MAT ceases to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The

actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.

- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

### 3.2 Repayment flexibility on exit payments

#### Deferred spreading arrangement (DSA)

The fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the fund's policy is:

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period in limited circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The fund will only consider written requests within six months of the employer exiting the fund. The exiting employer would be required to provide the fund with detailed financial information to support its request.
- The fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.

#### Deferred debt agreement (DDA)

The fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the fund may exercise its discretion to set up a deferred debt agreement as described in [Regulation 64 \(7A\)](#).

The employer 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 DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.

- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrolls new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The fund actuary assesses that the employer 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. employer is now largely fully funded on their cessation exit basis).
- The fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer 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 employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

### 3.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the [Local Government Pension Scheme \(Amendment\) Regulations 2020](#).

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the Administering Authority will take into account the following factors.

- a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.
- b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.
- c) any representations to the Administering Authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.
- d) any other relevant factors

#### **Admitted bodies**

- i. No exit credit will normally be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the fund.
- ii. No exit credit will normally be payable to any admission body who participates in the fund via a pass through approach.
- iii. The fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the fund.
- iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.
- v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- vi. If the admission agreement ends early, the fund will consider the reason for the early termination, and whether that should have any relevance on the fund's determination of the value of any exit credit payment. In these cases, the fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.
- vii. If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

- viii. The decision of the fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

#### **Scheduled bodies and designating bodies**

- i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- ii. Where no formal guarantor or risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- iii. The decision of the fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.
- iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
- v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

#### **General**

- i. The fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.
- ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the fund and the respective investment returns earned on both.
- iii. The fund will also factor in if any contributions due or monies owed to the fund remain unpaid by the employer at the cessation date. If this is the case, the fund's default position will be to deduct these from any exit credit payment.
- iv. The final decision will be made by the pension manager, in conjunction with advice from the fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.
- v. The fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the fund will discuss its approach to determining an exit credit with all affected parties. The decision of the fund in these instances is final.
- vi. None of the above should be considered as fettering the fund's discretionary decision, instead it is an indication of how decisions are likely to be made. However it is important to bear in mind that each and every potential exit credit case will be considered by the administering authority on its own merits, and the administering authority will make its discretionary decision on that basis.

#### **Disputes**

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

## 4 Practicalities and process

### 4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the fund is likely to come to an end must:

- advise the fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

### 4.2 Responsibilities of Administering Authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
  - details of the cessation - the reason the employer is leaving the fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
  - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
  - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

### Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

### 4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

## 5 Related Policies

The fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.

# London Borough of Havering Pension Fund

## Policy on contribution reviews

Effective date of policy	
Date approved	
Next review	

### 1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

#### 1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

#### 1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

#### 1.3 Guidance and regulatory framework

[Regulation 64](#) of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects [statutory guidance](#) from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board.

## 2 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

## 3 Policy

### 3.1 Circumstances for review

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 fund within the next two years and/or before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations 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 (e.g. a material change in employer covenant, or provision of additional security);
- 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.

### 3.2 Employer requests

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).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

### **3.3 Other employers**

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole fund.

The administering authority will consult with other fund employers as necessary.

### **3.4 Effect of market volatility**

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.

### **3.5 Documentation**

Where revisions to contribution rates are necessary, the fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

## **4 Related Policies**

The fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

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