



# Havering

LONDON BOROUGH

## PENSIONS COMMITTEE AGENDA

7.00 pm

Tuesday  
21 March 2023

Council Chamber,  
Town Hall, Main Road,  
Romford

Members 7: Quorum 3

**COUNCILLORS:**

**Conservative Group  
(3)**

Robert Benham  
Dilip Patel  
Viddy Persaud

**Havering Residents' Group  
(3)**

Julie Wilkes  
Philip Ruck (Vice-Chair)  
James Glass

**Labour Group  
(1)**

Mandy Anderson (Chairman)

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**Trade Union Observers**

Derek Scott

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

**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:-

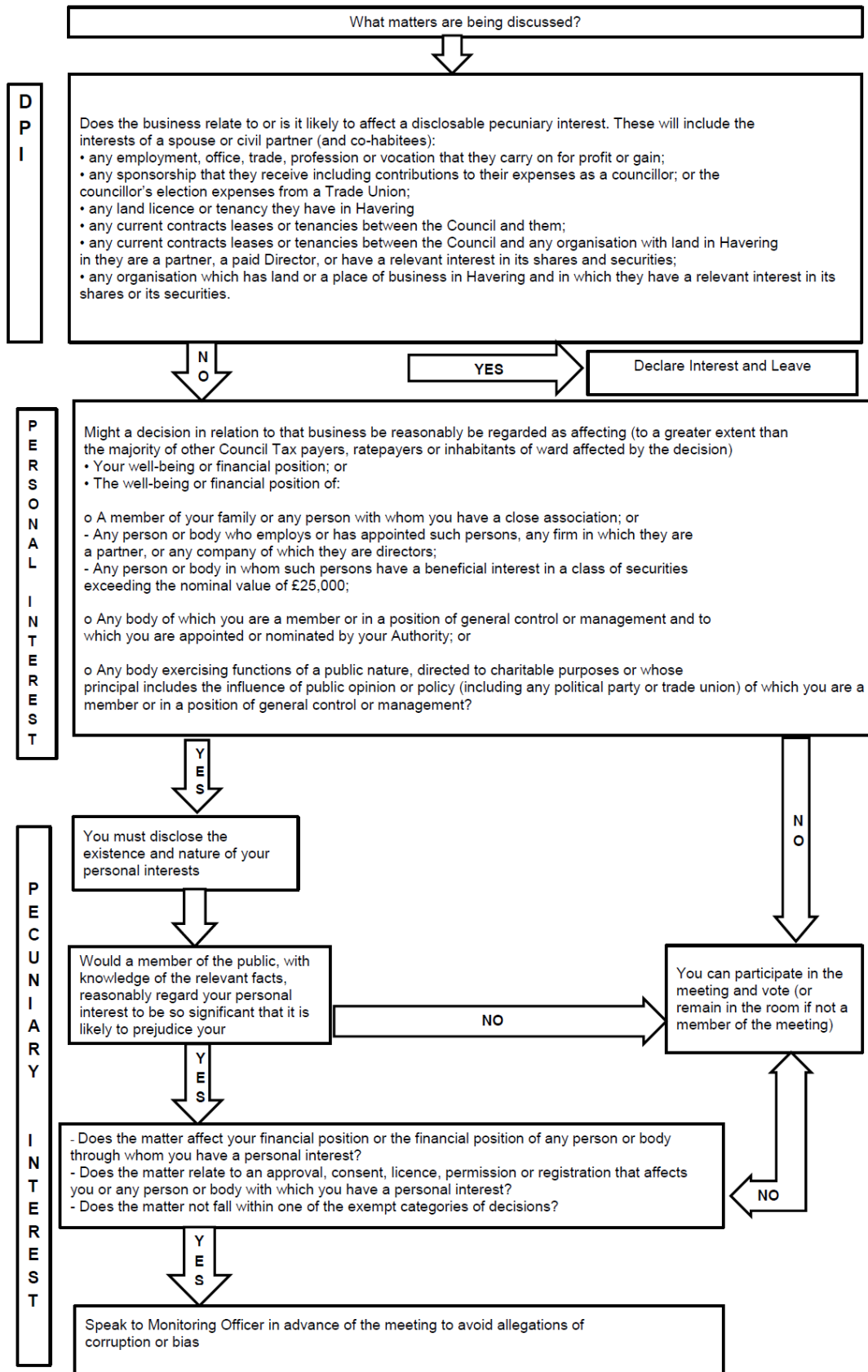
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, 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 13/12/22 (Pages 1 - 4)**

To approve as correct the minutes of the meeting held on 13 December 2022 and authorise the Chairman to sign them.

### **5 MINUTES OF THE LOCAL PENSION BOARD 07/02/23 (Pages 5 - 10)**

To receive the minutes of the Local Pension Board. LBP minutes of 07 February 2023 attached for noting.

### **6 URGENT BUSINESS**

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

### **7 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.

### **8 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED DECEMBER 2022 (Pages 11 - 68)**

Report and appendices attached.

**9 INVESTMENT STRATEGY UPDATE - CONSIDERATIONS** (Pages 69 - 84)

Report and appendix attached.

**10 DRAFT CLIMATE RISK POLICY** (Pages 85 - 100)

Report and appendix attached.

**11 REVIEW OF OVERPAYMENT WRITE OFF POLICY** (Pages 101 - 104)

Report attached.

**12 PENSIONS ADMINISTRATION BUDGET 2023/24** (Pages 105 - 110)

Report attached.

**13 REVIEW OF VOTING AND ENGAGEMENT ACTIVITY JUNE 2022** (Pages 111 - 130)

Report and appendix attached.

**14 ACTUARIAL VALUATION REPORT AS AT 31 MARCH 2022** (Pages 131 - 176)

Report and appendix attached.

**15 SERVICE REVIEW OF THE PENSION FUND CUSTODIAN OCTOBER 2021 TO 30 SEPTEMBER 2022** (Pages 177 - 184)

Report attached.

**16 VARIOUS ADMISSIONS INTO HAVERING PENSION FUND** (Pages 185 - 202)

Reports attached.

**Zena Smith  
Democratic and Election  
Services Manager**

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**MINUTES OF A MEETING OF THE  
PENSIONS COMMITTEE  
Town Hall, Main Road, Romford  
13 December 2022 (7.03 - 8.53 pm)**

**Present:**

**COUNCILLORS**

<b>Conservative Group</b>	Dilip Patel and Viddy Persaud
<b>Havering Residents' Group</b>	Julie Wilkes and Philip Ruck (Vice-Chair)
<b>Labour Group</b>	Mandy Anderson (Chairman)

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

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

Apologies were received from Councillors James Glass and Robert Benham for inability to attend the meeting.

**267 DISCLOSURE OF INTERESTS**

There were no declarations of interest.

**268 MINUTES OF THE MEETING NOVEMBER 8 2022**

The minutes of the meeting 8 November 2022 were accepted as a true and accurate record and would be signed by the Chairman after the following amendments were made:

- Item 262 – 2<sup>nd</sup> paragraph the words “performance fees” should be replaced with “management fees” and further down the word “pay” should be replaced with “overpayment”.

**269 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER**

The Committee was presented with a report that provided 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 September 2022.

It was explained that the Fund increased in value by £1.09m (0.13%) over the quarter, it underperformed the tactical benchmark by -1.08% but outperformed the strategic benchmark by 7.91%. The general position of the Fund was considered plus other matters including any current issues as advised by Hymans.

Both managers from Stafford and Hymans attended and discussed the fund's performance. It was explained that the investment strategy contained growth assets, income generating assets and protection assets as shown in the report and relationships with various managers were also summarised.

The Committee **agreed** the following recommendations.

270 **INVESTMENT CONSULTANCY SERVICES PERFORMANCE REVIEW - 1 OCTOBER 2021 TO SEPTEMBER 2022**

The Committee were presented with a report on the review performance of the Investment Consultant for the period 1 October 2021 to 30 September 2022 against strategic objectives previously set.

It was suggested that a RAG rating be added with letters to the report to make it easier to digest the material.

The Committee **agreed** the recommendations.

271 **CLIMATE RISK MANAGEMENT PLAN PROGRESS REPORT**

The Committee were presented with a report that set out the progress made and further actions required in developing the Fund's Plan for embedding climate risk management within the Fund's investment portfolio.

The Committee **agreed** the recommendations and that Hymans take all the actions as shown in the report.

272 **PENSION FUND RISK REGISTER - UPDATED**

The Committee was provided with a report that updated the committee with the latest version of the Havering Pension Fund ("the Fund") Risk Register (Appendix A), which detailed the potential risks the Fund is exposed to, that the Pensions Committee should be aware of, and the controls in place to manage those risks.

It was explained there were 7 categories and there were 3 other controls in place to manage risks supported by external service providers to the Fund such as actuaries, advisors, auditors, custodian and system administrators, alongside our regulatory bodies as they have procedures in place to identify and managing risk.

A risk was identified within the Pensions team due to the size of the team and demographics that could mean early retirement. **Action Point:**

**Members asked Debbie to ask Dave McNamara to acknowledge this was recognised.**

The Committee **agreed** the recommendations.

273 **LOCAL PENSIONS BOARD ANNUAL REPORT - YEAR ENDING 31 MARCH 2022**

The Committee were presented with the Local Pension Board Annual Report 2021/22 which included the work covered by the Board during the year and the future work plan.

The Committee **agreed** the recommendations.

274 **MINUTES OF THE LOCAL PENSION BOARD 15 NOVEMBER 2022**

The meeting minutes of the 15 November Local Pension Board were **noted** by the Committee.

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**Chairman**

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**MINUTES OF THE MEETING OF THE  
LOCAL PENSION BOARD  
Virtual via Teams  
7 February 2023 (4.05 - 5.35 pm)**

**Present:**

Andrew Frater (Scheme Member Representative), Mark Holder (Scheme Member Representative), Yasmin Ramjohn (Scheme Member Representative), Joanne Sladden (Scheme Employer Representative) and Dionne Weekes (Scheme Member Representative).

Officers: Debbie Ford, Caroline Guyon, Tara Haroon, James Grafton, Sam Kemp, Alexandra McMahon, Lilian Thomas

Guests: Mark Waterworth (LLPA), Greg Smith (LLPA)

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

**139 CHAIR'S ANNOUNCEMENTS**

The Chairman advised members of actions to take if they were disconnected from the video call.

**140 APOLOGIES FOR ABSENCE**

Apologies were received from Denise Broom (Scheme Member Representative).

**141 DISCLOSURE OF INTEREST**

There were no disclosures of interest.

**142 MINUTES OF THE MEETING LPB 15 NOVEMBER 2022**

The minutes of the meeting of 15 November 2022 were accepted as a true and accurate record.

**143 MINUTES OF THE MEETING PC 22 DECEMBER 2022**

The Pensions Committee minutes and feedback by officers 22 December 2022 meeting were noted.

Members were reminded that there would be a training session titled: Education session on climate metrics - 2023 Key Action from Embedding Climate Risk Management into the Fund' paper presented in December 2022. This would take place via Teams on 6 March 2023 at 16:00.

The sign in is as follows:

Meeting ID: 337 258 427 124

Passcode: seN5hP

144 **LPPA QUARTERLY PERFORMANCE REPORT**

The Board were presented a report from Greg Smith of the Local Pensions Partnership.

GS explained that LPPA had moved to a new pension system called UPM. Clients were phased onto the system and there was a relaxation of service levels for November, December and January to allow for teething problems.

Things were still not on track and it was expected that service level agreements would return to the targeted 95% after approximately six months. There were also currently waiting times of 9 minutes and there was a target to get those times down to under 4 minutes.

Members raised concerns over communication with LPPA and needed assurances that year end information would be provided. GS assured that communications would be improved in the future given that there was a new executive team in place that had significant LGPS experience. There was also a client forum scheduled for the end of February whereby they would be going through how to get to back to level within the agreement, how wait times would be reduced, how to make tangible improvements and how to roll out the new pensions administration system whilst improving customer relationships.

The Board agreed that LPPA needed to be kept to account and any further issues would be raised with them.

145 **PENSIONS RISK REGISTER**

The Board were presented with a summary of the risk register. It was explained that it was presented to the Pensions Committee. They requested that coloured wording be added because the risks were not clear when reading in Black and White.

Officers suggested the Board select a risk category for the next meeting for an in-depth review. The board requested that they review those controls classified as Amber.

The Board noted the report.

146 **PENSIONS ADMINISTRATION STRATEGY**

The Board were presented with a report outlining the Pension Administration Strategy. It was explained a 12 month strategy was created and communications were sent to employers with a short paragraph about

sourcing in the hopes of raising awareness. It was noted that Caroline Guyon (CG) was happy to take feedback and that it was up to the LPPA to report the next steps; however she was happy to take any comments or suggestions back to them. It was agreed that it was important to consider any items that the LLPA were not able to help with and to further decide what could be done with the information provided.

Action: CG would bring back an update to the next meeting.

The Board noted the report.

#### 147 **COP14 COMPLIANCE CHECKLIST**

The Board were presented with a report that contained the COP14 Checklist.

It was explained that there were robust processes in place and there were no issues with employers and late payment of contributions. Work was required around the LLPA reports against SLA disclosure timescales. CG would discuss with Greg and his team to see if that could be implemented.

#### 148 **POSITION OF CHAIR**

It was explained to the Board that initially when the advertisement was posted for position of Chair, there were a number of people interested in the position.

However, once the packs, the terms of reference and the information about the allowances were sent through to the interested parties, no one applied. The feedback CG received was that the pay was not sufficient.

After research of what other London Boroughs were paying, it was suggested that £8000 should be allocated from the Pension Board budget. This amount is subject to approval by the S151 officer and then the position would be re-advertised.

The requirements for the position would be as follows: attendance of 5 meetings a year including the AGM, the expectation of the ability to challenge officers and have a strong understanding of the regulatory requirements. Therefore, the allowance would reflect that level of importance. The job description with terms of reference was already a part of the pack and the Committee would need to review the performance of the Chair.

CG thought the Scheme manager would be involved in the process of overseeing the role as well; however, she would look into this further. CG would also enquire to the Pension Officer Group for clarity on where the responsibility sits for specific aspects of the chair.

Action: The next step would be to investigate the performance review process further to ensure the Board were happy with the process of

monitoring performance output before appointing a Chair for the 4 year term and pending approval of the 151 Officer.

The board **agreed** the recommendation of an independent chair at a cost of no more than £8000 and dependent on outcome of how to review performance.

149 **DRAFT LOCAL PENSION BOARD BUDGET 23/24 TO 26/27**

The Board was presented with the LPB Draft Budget for 23/24-26/27. Officers explained the change in the proposed budget from the previous four-year budget.

Members allowance and traveling budget was increased to £12,000 from 23/24 onwards to include an allowance for the new Independent Chair and an increase in board membership.

Communications and computing budget of £500 is now incorporated with printing and stationery and office expenses.

Professional advice budget reduced to £5000 based on no usage in the four years previously and can be used to offset the cost of the new chair Training and development of £10,000(shred with Pensions Committee - no change . The budget for the next four years was set at £31,900.

Officers reminded members to claim any outstanding expenses.

Officers reminded the Board of the importance of training and to continue to undertake the Hymans LOLA training modules and the need to revisit them on an ongoing basis.

Action: Members who did not plan on claiming their allowances were asked to email LT as soon as possible.

Action: t DF would chase the Ill Health Liability Insurance (IHLI) notifications.

Action: Budget to be approved by S151 officer.

The Board **noted** the Officers' recommendations for the Draft budget and that it is subject to S151 officer approval.

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**Chairman**

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## PENSIONS COMMITTEE

21 March 2023

**Subject Heading:**

**PENSION FUND PERFORMANCE  
MONITORING FOR THE QUARTER  
ENDED DECEMBER 2022**

**CLT 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:**

Pension Fund performance (“the Fund”) is regularly monitored to ensure investment objectives are being met and to keep the committee updated with Pension issues and developments.

**Financial summary:**

This report comments upon the performance of the Fund for the period ended 31 December 2022

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

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

### SUMMARY

This report provides an overview of how the Fund’s investments are performing, how the individual Investment Managers are also performing against their set targets and any relevant Local Government Pension Scheme (LGPS) updates for the quarter ending **31 December 2022**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund increased in value by **£4.53m** over the quarter, it underperformed the tactical benchmark by -4.46% but outperformed the strategic benchmark by 5.68%.

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

The manager attending the meeting will be:

**JP Morgan (Infrastructure)**

Hymans will discuss the Fund's performance after which the manager will be invited to join the meeting, make their presentation and answer any questions.

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

**RECOMMENDATIONS**

That the Committee:

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

**REPORT DETAIL**

1. Elements from Hymans report, which are deemed non-confidential, can be found in **Appendix A**. Opinions on fund manager performance will remain as exempt and shown in **Appendix B**.

2. Where appropriate topical LGPS news that may affect the Fund will be included.
3. We welcome any feedback and suggestions that will help members gain a better understanding of the reports. Hymans report at Appendix A now includes a one-page summary highlighting key performance takeaways over the quarter.

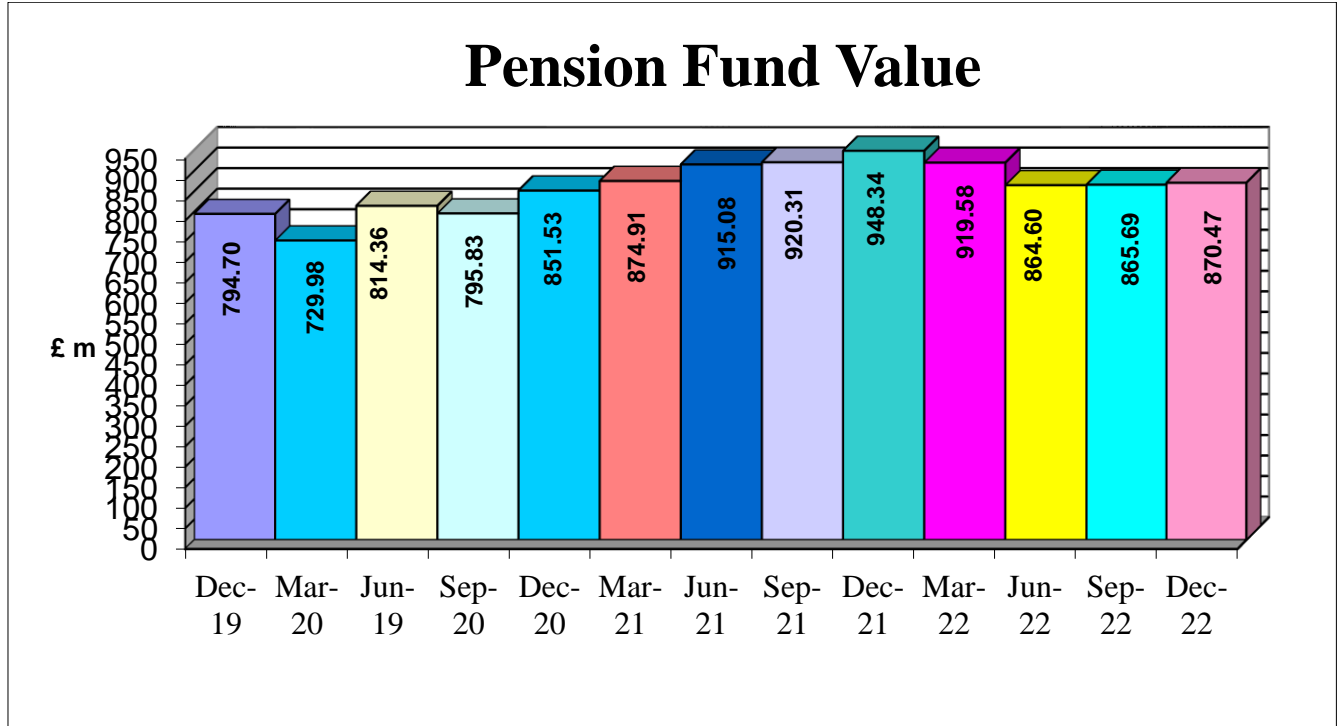
#### 4. BACKGROUND

- a. The Committee adopted an updated Investment Strategy Statement (ISS) in July 2020.
- b. The objective of the Fund's ISS is to deliver a stable long-term investment return in excess of the expected growth in the Fund's liabilities.
- c. The Fund's assets are monitored quarterly to ensure that the long-term objective of the ISS is being delivered.
- d. We measure returns against tactical and strategic benchmarks:
- e. **Tactical Benchmark** - Each asset manager has been set a specific (tactical) benchmark as well as an outperformance target against which performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.
- f. **Strategic Benchmark** - A strategic benchmark has been adopted for the overall Fund of Index Linked Gilts + 1.8% (net of fees) per annum. This is the expected return in excess of the fund's liabilities over the longer term and should lead to an overall improvement in the funding level. The strategic benchmark measures the extent to which the Fund is meeting its longer-term objective of reducing the Fund's deficit.

#### 5. PERFORMANCE

- a. As reported by the Fund's custodian Northern Trust, the total Fund value at 31 Dec 2022 was **£870.47m** compared with £865.94m at the 30 Sept 2022; an **increase of £4.53m**. This movement can be attributable to an increase in asset values of £0.06m and an increase in cash of £4.47m. Internally managed cash stands at **£14.124m**, an analysis follows in this report.

Chart 1 – Pension Fund Value



Source: Northern Trust Performance Report

\*Quarter ending September 2020 includes a bulk transfer out of £40m

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

Table 1: Tactical Performance

	Quarter to 31.12.22	12 Months to 31.12.22	3 Years to 31.12.22	5 years to 31.12.22
	%	%	%	%
Fund	0.45	-9.16	3.98	4.31
Benchmark	0.90	-2.92	4.85	5.18
*Difference in return	-0.46	-6.24	-0.87	-0.87

Source: Northern Trust Performance Report

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

- c. The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts + 1.8% Net of fees). The strategic benchmark represents the expected rate at which the Fund’s liabilities are growing (or falling) in value. The asset performance relative to the strategic benchmark performance gives

an indication of whether the funding level has improved or weakened over a given period

Table 2: Strategic Performance

	<b>Quarter to 31.12.22</b>	<b>12 Months to 31.12.22</b>	<b>3 Years to 31.12.22</b>	<b>5 years to 31.12.22</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Fund	0.45	-9.16	3.98	4.31
**Benchmark	-5.24	-31.61	-6.49	-2.13
*Difference in return	2.78	22.45	10.47	6.44

Source: Northern Trust Performance Report

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

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

## **6. CASH POSITION**

- a. An analysis of the internally managed cash balance of **£14.124m** follows:

Table 3: Cash Analysis

<b><u>CASH ANALYSIS</u></b>	<b><u>2020/21</u></b> <b><u>31 Mar</u></b> <b><u>21</u></b>	<b><u>2021/22</u></b> <b><u>31 Mar</u></b> <b><u>22</u></b>	<b><u>2021/22</u></b> <b><u>31 Dec</u></b> <b><u>22</u></b>
	£000's	£000's	£000's
<b>Balance B/F</b>	<b>-23,056</b>	<b>-15,963</b>	<b>-14,260</b>
Benefits Paid	38,874	37,632	20,556
Management costs	1,420	1,720	682
Net Transfer Values	14,251	333	532
Employee/Employer Contributions	-48,049	-49,112	-24,667
Cash from/to Managers/Other Adj.	723	11,173	3,053
Internal Interest	-126	-43	-20
<b>Movement in Year</b>	<b>7,093</b>	<b>1,703</b>	<b>136</b>
<b>Balance C/F</b>	<b>-15,963</b>	<b>-14,260</b>	<b>-14,124</b>

- b. Members agreed the updated cash management policy at their committee meeting on 17 September 2019. Main points are - target cash level to be £6m within a set parameter of £3m to £8m, income from the bond and property manager can be drawn down when required, any excess cash above the upper £8m parameter is held for reinvestment/rebalancing within the investment strategy.

## **7. REPORTING ARRANGEMENTS**

- a. At each reporting cycle, the Committee will see a different fund manager until members have met them all unless there are performance concerns that demand they be brought back again for further investigation. Fund Manager Reviews are included within Hymans performance report at **Appendix A**.
- b. The full version of all the fund manager's quarterly reports are distributed electronically prior to this meeting. Where applicable, quarterly voting information, from each fund manager, detailing the voting history of the fund managers is also included in the manager's quarterly report.
- c. The fund manager attending this meeting is the **Fund's Infrastructure Manager JP Morgan**, their report is attached at **Appendix C (Exempt)**.

## **8. FUND UPDATES:**

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

- a. Since the last report, the Fund has continued to fund capital draw down requests, within the total fund commitments approved by this committee: £1.36m Stafford IV, £0.33m London Collective Investment Vehicle (LCIV) Renewables Fund, £0.99m Churchill IV fund, £0.76m Permira PCS4 fund and £10.54m Permira PCS5 Fund.
- b. Capital Calls were mainly funded by withdrawals from Royal London Asset Management (RLAM) (Corporate Bonds mandate), which was holding an overweight position against the strategic benchmark asset allocation and income distributions received from fund managers.
- c. On the 25 October 2022, the Fund fully redeemed its remaining holdings in the RLAM Corporate Bonds Portfolio, bringing the asset allocation in line with the target allocation of 0%. Final

settlement being £9.3m and this was used to part fund the Permira PCS5 capital call of £10.54m.

**8.2 LCIV** - In line with Central Governments' policy, it has been a mandatory requirement to pool assets since 2016. The LCIV is the appointed asset pool manager for the Fund and the governance of our investments held with the LCIV is now the responsibility of LCIV. It is crucial that regular communication and contact is upheld and activity updates will be covered here as follows:

**8.2.1 LCIV meetings (since the last report)**

- 15 December 2022 – Investor meeting – Deep Dive review of the LCIV Diversified Growth Fund. LCIV, as part of their on-going monitoring process, carry out annual reviews on its sub fund managers. The review for the Diversified Growth Fund was released on the 15 December 2022 and the outcomes discussed with investors. The Fund's allocation to this portfolio is £65m (7.5%). Monitoring status has been changed from normal to enhanced monitoring, which means that deep dive reviews will be undertaken half yearly and the length of the scheduled review meeting will be extended. Areas of concern focus on performance, application of the investment process and progress with Environmental, Social and Governance (ESG) integration. The next review is scheduled for June 2023. The Fund's allocation to this portfolio will be an area for discussion as part of the investment strategy review currently in progress.
- 26 January 2023 – General Shareholder meeting included an update and noting of performance, Medium Term Financial Strategy 2023/26 and budget 2023/24 (approved), no change to the fixed fees of £110k per shareholder for 2023/24, an update to the current issue of two shareholders not agreeing to amending the Articles of Association and Shareholder agreement (31 March 2023 is the cut-off for notice if these two shareholders intend to exit the pool). Update on Remuneration and Nomination matters.
- 10 February 2023 – Introductory meeting was held with officers, the Chair and the new Chief Executive Officer (CEO) Dean Bowden to discuss potential future investment movements and future direction of LCIV.
- Business Update Meetings (currently held virtually) – take place monthly. Meetings held on the 24 November 2022, 27 January 2023 and 23 February 2023.

- Each business update meeting includes an update from LCIV Chief Officers covering current fund offerings, fund performance; fund updates (including those funds for which enhanced monitoring is in place) and the pipeline for new fund launches. In addition, relevant topical issues are included as appropriate. Highlights as follows:
  - **Annual Reviews** – In depth reviews, applicable to the Fund, are scheduled for LCIV Global Alpha Growth Paris-Aligned Fund and LCIV Passive Equity Progressive Paris Aligned (PEPPA) Fund before March 2023.
  - **Medium Term activity** to focus on Strategy Roadmap 2023 project planning, internal work groups formed for Corporate Net Zero project and Impact Investing project.
  - **Fund Activity - New/Changes to Sub Fund Launches:**
    - *New:* UK Housing Fund (Property) – Stage 4 (fund Launch) – First close 31 March 2023. The Fund is currently fully allocated to its Property target asset allocation and not looking to invest in this fund.
    - *Change:* LCIV Renewable Infrastructure Fund – Adding a new fund manager due to new client fund commitments and manager recommendation has been approved. Due diligence to commence. Expected completion in March 2023.
    - *Change:* LCIV Infrastructure Fund – LCIV negotiated reduced fees and new investment management agreement is being drafted and expected to be completed March 2023. Havering is not invested in this fund.
    - *Change:* LCIV Absolute Return fund - Fee saving feasibility assessment expected March 2023. Havering is invested in this fund
    - *Change:* LCIV MAC and Alternative Credit – Switch to Fund of One Structure, which will enable better fee negotiations. Final terms agreed with fund manager. Havering is not invested in this fund
    - *Change:* LCIV Real Estate Long Income Fund – will make its first dividend distribution in March 23 and quarterly thereafter. Havering is not invested in this fund

- **Other Fund and Corporate Matters:**
  - November 2022 – Issued briefing paper on Corporate Credit.
  - January 2023 – Investment Governance Document - sets out procedures undertaken for hiring, managing and firing fund managers.
  - Currently reviewing activity programme for 2023.
  - Will be looking at extending the time permitted to service capital call requests
  - Assessment of Value being prepared and will be presented to the business update meeting in April
  - Securities lending programme has been paused but prioritisation given to securing client support for security lending for the PEPPA fund

### **8.3 LGPS GENERAL UPDATES:**

#### **8.3.1 Governments White Paper on Education Reforms - UPDATE**

- a. At the Pensions Committee meeting held on the 26 July 2022 Officers reported that the Government issued a White Paper followed by the Schools Bill on Education reforms of which included plans expecting Local Authority schools to become Academies or be in the process of doing so by 2030.
- b. It was reported that the impact of these proposals would be significant to LGPS funds, in Havering there were 42 LEA schools currently not part of an Academy that potentially would need to convert, which could affect existing resources to facilitate on-boarding and ongoing administration.
- c. In December 2022 it was announced that the Schools Bill will now not progress and the plans to mandate LEA schools by 2030 has been scrapped.

#### **8.3.2 Training Requirements - UPDATE**

- a. the Fund has subscribed to the LGPS Online Learning Academy (LOLA) Launched by our Actuaries (Hymans) – this is an online platform designed to support the training needs of Pensions Committees, Local Pension Boards and Officers. The training is split into a number of modules covering the CIPFA Knowledge & Skills Framework and The Pension Regulator’s Code of Practice 14. Each module contains short ‘video on demand’ presentations of 20 minutes or less with supplemental learning materials and quizzes.

- b. The Fund will receive regular progress reports allowing it to easily evidence member's development and progress as at February 2023 can be seen in the table below:

<b>LOLA Modules Summary</b>						
<b>Name</b>	<b>Module 1</b>	<b>Module 2</b>	<b>Module 3</b>	<b>Module 4</b>	<b>Module 5</b>	<b>Module 6</b>
<b>Pensions Committee</b>						
Cllr Anderson	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Benham	In progress					
Cllr Patel	Complete	In progress				
Cllr Persaud	Complete	Complete	Complete	Complete	Complete	In progress
Cllr Ruck	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Stanton	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Wilkes	Complete	Complete	Complete	Complete	Complete	Complete
Cllr Glass						
Derek Scott	Complete	Complete	Complete	Complete	Complete	Complete

- c. In addition to an induction training session, it is expected that members will complete the online training over a six-month period or sooner in support of meeting the Committee procedure rules. The six months' deadline will apply once members joining instructions have been issued – so February 2023.

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

**Financial implications and risks:**

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

**Legal implications and risks:**

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

**Human Resources implications and risks:**

There are no immediate HR implications.

**Equalities implications and risks:**

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

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

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

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

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

**BACKGROUND PAPERS**

None

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# London Borough of Havering Pension Fund

Page 23

## Q4 2022 Investment Monitoring Report

Simon Jones – Partner

Mark Tighe – Associate Investment Consultant

Meera Devlia – Investment Analyst

## Key Takeaways

<b>Equities and credit generally performed well over the quarter</b>	<ul style="list-style-type: none"> <li>Growth figures released during the quarter were ahead of expectation and the fears around European gas shortages eased</li> <li>The LCIV Global Alpha equity fund underperformed whilst the LGIM Future World equity fund performed well as 'value' stocks continued to outperform 'growth' stocks</li> <li>The LCIV Absolute Return Fund continued to produce very strong returns</li> </ul>
<b>Overall fund performance was positive as the total Fund value increased by around 0.5%, significantly outperforming the strategic benchmark</b>	<ul style="list-style-type: none"> <li>Fund performance of 0.5% was broadly in line with the tactical benchmark</li> <li>The Fund's assets significantly outperformed the strategic benchmark (-5.2%) indicating the funding level is expected to have increased over the quarter.</li> </ul>
<b>Negative index linked gilt returns meant a rebalancing trigger was breached in the RLAM mandate, although no action was taken</b>	<ul style="list-style-type: none"> <li>Falling index linked gilt values meant that the balance in the RLAM mandate between MAC and IL gilts fell outside the current management parameters</li> <li>Rebalancing was suspended in light of the current strategy review and volatile markets and it is proposed that this provision is removed from the IMA</li> </ul>
<b>USD denominated assets were negatively impacted as sterling strengthened. There were offsetting gains from the currency hedging programme.</b>	<ul style="list-style-type: none"> <li>Many of the Fund's private market assets have USD exposure, meaning that they demonstrated a weak return when converted to sterling terms. Currency hedging largely offset this.</li> </ul>
<b>Large negative relative returns were observed across some of the Fund's real asset and bond investments, but there are no immediate concerns</b>	<ul style="list-style-type: none"> <li>Most of these mandates are measured against inflation based benchmarks. Short term inflation remains high</li> <li>As noted above, overseas currency exposure has negatively impacted returns</li> <li>Property market valuations continue to be revised down, unwinding some of the strong returns observed over the past 18 months</li> </ul>

## Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (%)	Last 5 years (%)
<b>Total Fund Performance</b>	<b>0.5</b>	<b>-9.2</b>	<b>4.0</b>	<b>4.3</b>
Tactical Benchmark	0.9	-2.9	4.9	5.2
Strategic Benchmark	-5.2	-31.6	-6.5	-2.1

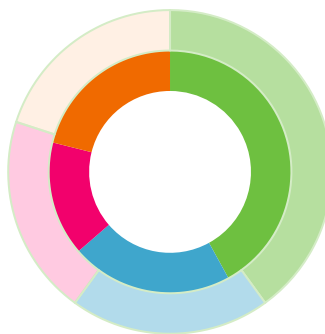
## Fund Asset Valuation

	Fund value (£m)
<b>Q3 2022</b>	<b>865.9</b>
<b>Q4 2022</b>	<b>870.5</b>

## Asset Allocation

### Long Term Target

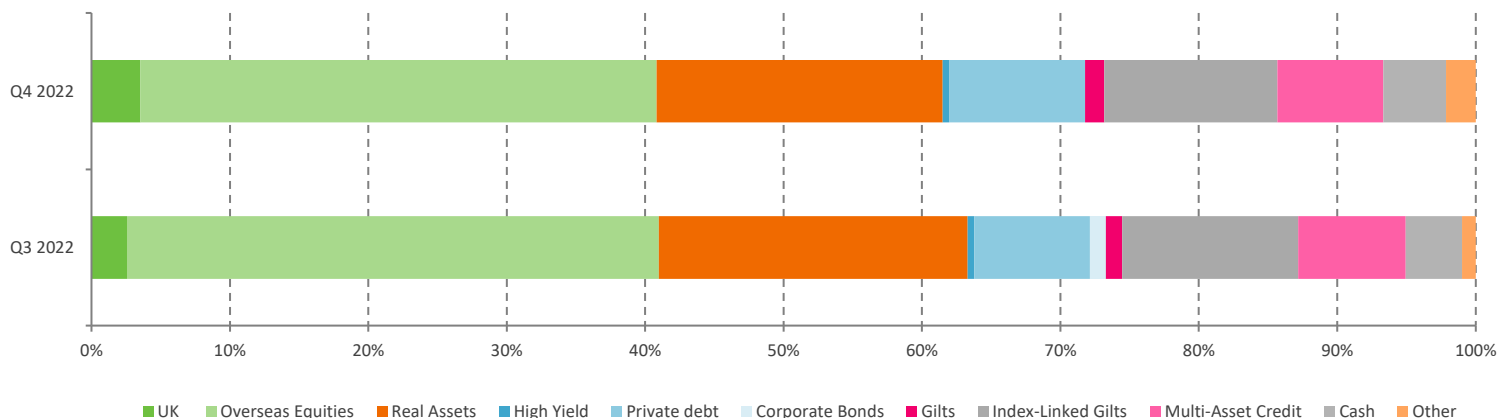
- Equity 40.0%
- Multi-Asset 20.0%
- Real-Assets 20.0%
- Bonds and Cash 20.0%



### Actual

- Equity 38.0%
- Multi-Asset 21.5%
- Real-Assets 19.2%
- Bonds and Cash 21.3%

## Asset Class Exposures



- The Fund's investment strategy is implemented through the London Collective Investment Vehicle ("LCIV"), and retained assets including life funds (with fee structures aligned with LCIV).
- The target allocation to LCIV and life funds totals 62.5% of Fund assets. Other retained assets will be delivered through external managers, with the position reviewed periodically.
- The chart below right illustrates the underlying asset allocation of the Fund, i.e. taking account of the underlying holdings in the multi-asset funds on a 'look through' basis.
- The Fund's overall allocation to equities continued to slightly decrease over the quarter to c.40.8% as at 31 December 2022 (c.41.0% at 30 September 2022) – this was due to both the LCIV Absolute Return Fund and LCIV Diversified Growth Fund decreasing their equity allocations from 14.8% and 25.3% to 12.7% and 16.5%, respectively.
- The allocation to private debt also continued to increase over the quarter to c.9.8% as at 31 December 2022 (c.8.4% as at 30 September 2022) – this was due to the majority of the Fund's private debt assets increasing in value over the quarter, despite mixed performance returns, the depreciation of sterling against the Euro and, primarily, the continued drawdown over the period, coupled with the fall in value of other assets.
- The allocation to real assets fell to c.20.7% as at 31 December 2022 (c.22.3% as at 30 September 2022) – this was due to the LCIV Diversified Growth Fund further decreasing their allocation to infrastructure and property from 20.2% to 18.2% over the quarter and real assets falling in value over the period.
- The allocation to corporate bonds fell to 0.0% as at 31 December 2022 (c.1.2% as at 30 September 2022) as the Fund fully redeemed its holdings in the RLAM Corporate Bonds Portfolio in October 2022.

## Asset Allocation

Manager		Valuation (£m)		Actual Proportion	Benchmark	Relative
		Q3 2022	Q4 2022			
<b>Equity</b>		<b>324.5</b>	<b>330.4</b>	<b>38.0%</b>	<b>40.0%</b>	<b>-2.0%</b>
LGIM Global Equity	LCIV aligned	32.5	33.2	3.8%	5.0%	-1.2%
LGIM Emerging Markets	LCIV aligned	35.9	36.1	4.2%	5.0%	-0.8%
LGIM Future World Fund	LCIV aligned	87.0	90.2	10.4%	10.0%	0.4%
LCIV Global Alpha Growth Paris Aligned Fund	LCIV	128.1	129.6	14.9%	15.0%	-0.1%
LCIV PEPPA Passive Equity	LCIV	40.9	41.3	4.8%	5.0%	-0.2%
<b>Multi-Asset</b>		<b>188.5</b>	<b>187.2</b>	<b>21.5%</b>	<b>20.0%</b>	<b>1.5%</b>
LCIV Absolute Return Fund	LCIV	116.4	122.2	14.0%	12.5%	1.5%
LCIV Diversified Growth Fund	LCIV	72.2	65.0	7.5%	7.5%	0.0%
<b>Real-Assets</b>		<b>179.9</b>	<b>167.3</b>	<b>19.2%</b>	<b>20.0%</b>	<b>-0.8%</b>
UBS Property	Retained	60.2	51.0	5.9%	6.0%	-0.1%
CBRE	Retained	38.8	35.3	4.1%	4.0%	0.1%
JP Morgan	Retained	39.9	35.4	4.1%	4.0%	0.1%
Stafford Capital Global Infrastructure SISF II	Retained	20.5	20.2	4.1%	3.5%	0.6%
Stafford Capital Global Infrastructure SISF IV	Retained	13.7	15.8			
LCIV Renewable Energy Infrastructure Fund	LCIV	6.7	9.6	1.1%	2.5%	-1.4%
<b>Bonds and Cash</b>		<b>172.8</b>	<b>185.5</b>	<b>21.3%</b>	<b>20.0%</b>	<b>1.3%</b>
RLAM Index Linked Gilts	Retained	29.0	26.0	3.0%	5.0%	-2.0%
RLAM Multi-Asset Credit	Retained	56.8	58.6	6.7%	7.5%	-0.8%
RLAM Corporate Bonds	Retained	10.1	0.0	0.0%	0.0%	0.0%
Churchill Senior Loan Fund II	Retained	25.6	23.4	2.7%	3.0%	1.4%
Churchill Senior Loan Fund IV	Retained	14.1	14.8	1.7%		
Permira IV	Retained	27.9	29.6	4.7%	4.5%	0.2%
Permira V	Retained	0.2	10.9			
Cash at Bank	Retained	15.0	19.1	2.2%	0.0%	2.2%
Currency Hedging P/L	Retained	-5.7	3.2	0.4%	0.0%	0.4%
<b>Total Fund</b>		<b>865.9</b>	<b>870.5</b>	<b>100.0%</b>	<b>100.0%</b>	

Source: Northern Trust, Investment Managers

The total value of the Fund's assets increased by £4.5m over the quarter to £870.5m as at 31 December 2022.

Despite falling in December 2022, global equities rose in the last quarter of 2022 due to optimism regarding the easing of European gas shortages and subsequent inflationary pressures in 2023, leading to improved investor sentiment.

The Fund's real assets continued to fall in value as rising interest rates and sustained inflationary pressures impacted real asset valuations. Capital values in property markets were c.20% below peak levels in June 2022, with the largest valuation decline being in the industrial sector.

Despite nominal gilt yields falling to below end-September 2022 levels, real yields rose over the quarter. As such, the Fund's RLAM Index linked Gilts mandate continued to fall in value over the period.

Over the quarter, as both global investment grade and sub-investment grade spreads fell by 0.3% p.a. to 1.5% p.a. and by 1.0% p.a. to 5.1% p.a., respectively, this positively impacted the RLAM MAC mandate.

Towards the end of October 2022, the Fund fully redeemed its remaining holdings in the RLAM Corporate Bonds Portfolio.

The Fund paid the following capital calls during the quarter:

- c.£1.4m to the Stafford IV Fund
- c.£0.2m to the LCIV Renewable Energy Infrastructure Fund
- c.£1.2m and c.£0.8m to the Churchill IV Fund
- c.£10.5m to the Permira V Fund

## Manager Performance

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
<b>Equity</b>												
LGIM Global Equity	2.1	2.1	0.0	-7.4	-7.3	-0.1	7.8	7.9	-0.1	11.2	11.2	0.0
LGIM Emerging Markets	0.6	0.8	-0.2	-6.9	-6.4	-0.5	1.6	1.9	-0.3	4.1	4.3	-0.2
LGIM Future World Fund	3.6	3.7	0.0	-6.7	-6.6	-0.1	-	-	-	-2.0	-1.9	-0.1
LCIV Global Alpha Growth Paris Aligned Fund	1.2	1.9	-0.7	-21.8	-7.8	-15.2	3.9	8.1	-3.9	11.9	11.4	0.4
LCIV PEPPA Passive Equity	1.0	0.9	0.1	-12.6	-13.0	0.5	-	-	-	-10.2	-10.6	0.4
<b>Multi-Asset</b>												
LCIV Absolute Return Fund	5.0	1.7	3.3	6.9	5.4	1.4	9.0	4.7	4.2	5.6	4.8	0.7
LCIV Diversified Growth Fund	1.5	1.6	-0.1	-15.9	5.0	-20.0	-2.1	4.2	-6.0	2.4	4.1	-1.6
<b>Real-Assets</b>												
UBS Property	-14.6	-14.1	-0.6	-8.9	-9.5	0.7	2.8	2.2	0.6	5.4	6.1	-0.6
CBRE	-9.1	3.8	-12.4	17.3	15.5	1.6	10.6	10.4	0.1	9.1	9.3	-0.2
JP Morgan	-7.3	3.8	-10.7	10.0	15.5	-4.8	9.7	10.4	-0.7	8.0	9.3	-1.1
Stafford Capital Global Infrastructure SISF II	1.1	3.8	-2.6	23.3	15.5	6.8	10.1	10.4	-0.3	9.3	9.1	0.2
Stafford Capital Global Infrastructure SISF IV	4.8	3.8	0.9	35.3	15.5	17.1	-	-	-	22.5	12.2	9.2
LCIV Renewable Energy Infrastructure Fund	28.3	3.8	23.6	22.3	15.5	5.9	-	-	-	18.5	14.2	3.8
<b>Bonds</b>												
RLAM Index Linked Gilts	-10.3	-7.5	-3.0	-39.8	-38.0	-3.0	-	-	-	-12.5	-11.6	-1.1
RLAM Multi-Asset Credit	3.2	3.4	-0.3	-10.1	-7.1	-3.2	1.5	1.8	-0.3	6.4	6.0	0.4
Churchill Senior Loan Fund II	-6.0	1.7	-7.6	17.1	5.4	11.1	7.7	4.7	2.9	6.4	4.7	1.6
Churchill Senior Loan Fund IV	-6.3	1.7	-7.8	15.8	5.4	9.9	-	-	-	15.8	5.4	9.9
Permira IV	2.0	1.7	0.3	5.7	5.4	0.2	3.7	4.7	-0.9	3.8	4.7	-0.9
Permira V	0.6	1.7	-1.0	-	-	-	-	-	-	0.7	3.1	-2.3
<b>Total</b>	0.5	0.9	-0.5	-9.2	-2.9	-6.4	4.0	4.9	-0.8	7.8	-	-

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

- Please note the early stage performance of the Fund's private market investments can be very volatile using this method of performance measurement. This is to be expected and should not provide cause for concern.
- The Fund's assets returned 0.5% over the quarter, underperforming its 0.9% benchmark return by -0.5%.
- The LGIM mandates continued to broadly track their respective benchmarks over the quarter.
- The LCIV Global Alpha Growth Paris Aligned Fund returned positively in absolute terms however underperformed its respective benchmark. The Fund's 18.5% allocation and overweight to the consumer discretionary sector (its third largest sectoral allocation) dragged on the Fund's performance – consumer discretionary stocks returned negatively over the period as the cost-of-living squeeze intensified over the quarter.
- Over the quarter, the low yield industrial sector has experienced the largest declines in capital values in the property market. UBS (c.26% as at 31 December 2022), CBRE (c.46% as at 30 September 2022) and JP Morgan (c.34% to the Utilities/Distribution sector as at 30 September 2022) all have significant allocations to the industrial sector and as such, have returned negatively in both absolute terms and relative terms against their respective property index and inflation linked benchmarks.
- The RLAM Index Linked Gilts mandate delivered negative returns in both absolute and relative terms due to further, but reducing rates of, increases in interest rates and real gilt yields over the quarter.
- Please note that all asset performance is in GBP terms and does not make an allowance for currency fluctuations. The total Fund performance includes the impact of the Russell currency overlay mandate. Please note the separate slide for further detail on the Russell mandate, along with asset performance excluding the impact of currency fluctuations.

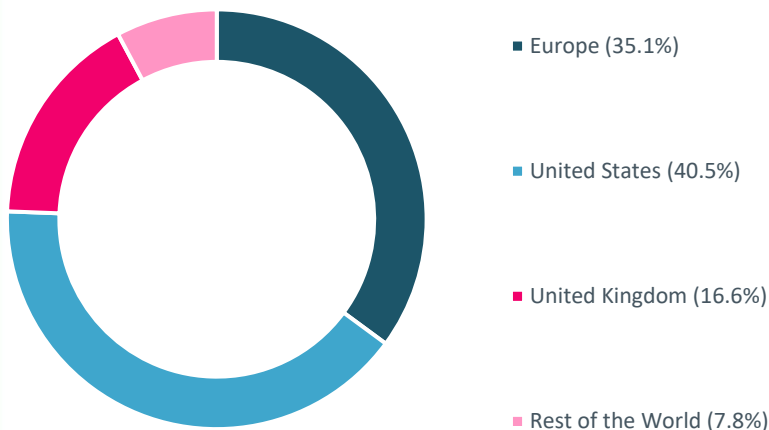
## RLAM – Bond Mandates

- Royal London Asset Management (RLAM) was appointed in February 2005 to manage the Fund's bond mandate. RLAM now manage two separate portfolios: the Index Linked Gilts Portfolio and the MAC Portfolio.
- The separate Corporate Bonds Portfolio was fully sold down to fund strategic changes across the rest of the Fund's wider asset allocation towards the end of October 2022.
- The Fund's strategic allocation to index linked gilts and multi-asset credit of 5.0% and 7.5%, respectively. The current IMA with RLAM has an automatic rebalancing provision which has been triggered, but is currently suspended. We recommend this be removed.
- The charts right compare the regional and credit rating breakdown of the MAC mandate at the end of the quarter.
- The RLAM Index Linked Gilts Portfolio fell in value as real yields continued to rise, with performance negative in both absolute and relative terms.
- Both investment grade and sub-investment grade credit spreads began to fall over the last quarter of 2022 and as such, the MAC Portfolio, primarily invested in sub-investment grade credit assets which experienced a greater fall in spreads, contributed positive absolute returns.

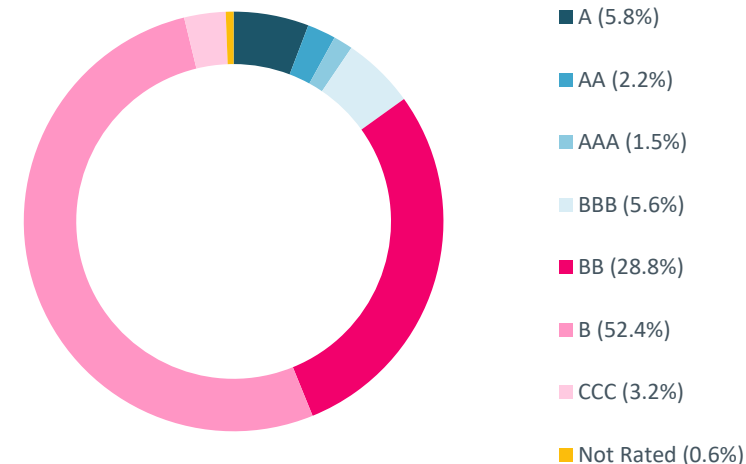
## RLAM Fund Performance

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
RLAM ILGs	-10.3	-39.8	-12.5
Benchmark	-7.5	-38.0	-11.6
Relative	-3.0	-2.9	-1.1
RLAM MAC	3.2	-10.1	6.4
Benchmark	3.4	-7.1	6.0
Relative	-0.3	-3.2	0.4

## Regional Allocation (MAC)



## Credit Allocation (MAC)



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

## Churchill Private Debt

- The strategic allocation to the Churchill mandate is 3.0%. With the actual allocation being overweight to this by 1.4% as at 31 December 2022.
- Over the quarter, both the Churchill II and Churchill IV funds underperformed their respective benchmarks and contributed negatively to the overall Fund return – with Churchill II contributing a relative return of -7.6% and Churchill IV contributing a relative return of -7.8%.
- However, over the longer periods of 12 months and since inception, both Churchill II and Churchill IV continued to outperform their respective benchmarks.
- As at 30 September 2022, Churchill II had 104 loan commitments and Churchill IV had 108 loan commitments.
- Over the third quarter of 2022, Churchill II completed 3 new investments totalling \$20.1m (c.£18.0m) and Churchill IV completed 13 new investments totalling \$328.8m (c.£294.5m).

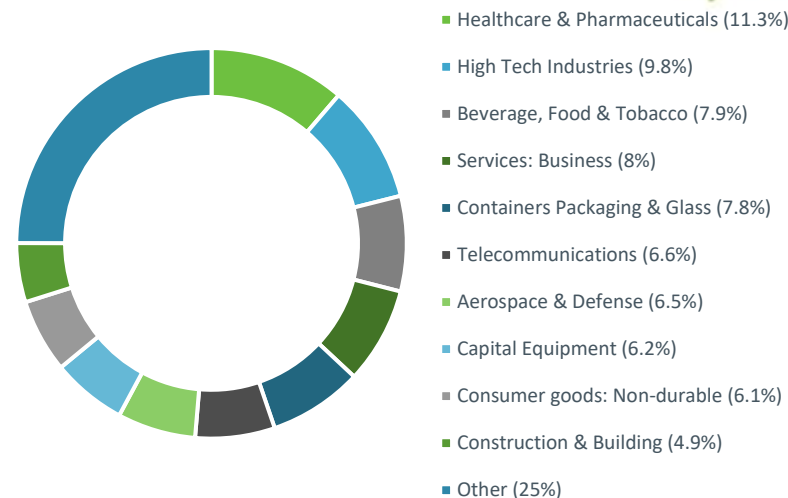
## Churchill II Fund Performance

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
<b>Churchill Senior Loan Fund II</b>	<b>-6.0</b>	<b>17.1</b>	<b>6.4</b>
<b>Benchmark</b>	<b>1.7</b>	<b>5.4</b>	<b>4.7</b>
<b>Relative</b>	<b>-7.6</b>	<b>11.1</b>	<b>1.6</b>

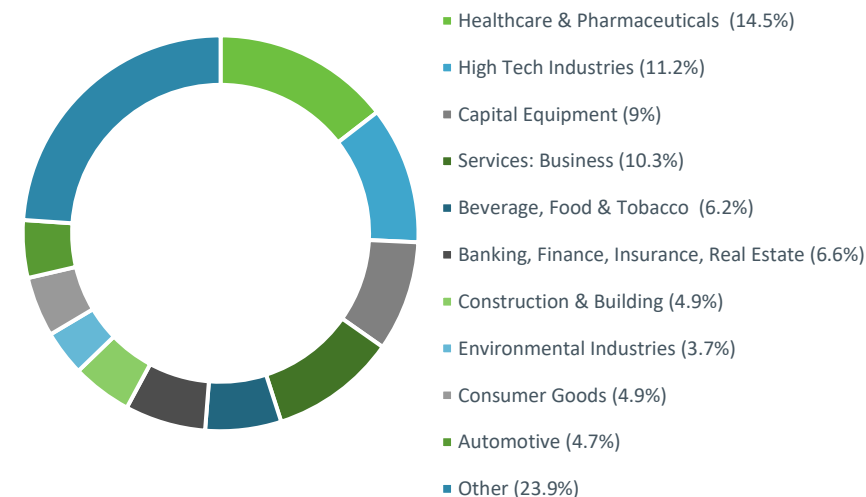
## Churchill IV Fund Performance

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
<b>Churchill Senior Loan Fund IV</b>	<b>-6.3</b>	<b>15.8</b>	<b>15.8</b>
<b>Benchmark</b>	<b>1.7</b>	<b>5.4</b>	<b>5.4</b>
<b>Relative</b>	<b>-7.8</b>	<b>9.9</b>	<b>9.9</b>

## Churchill II Sector Allocation\*



## Churchill IV Fund Sector Allocation\*



Source: Northern Trust, Churchill  
 \* As at 30 September 2022 (latest available).

## Permira Private Debt

- The strategic allocation to the Permira mandate is 4.5%. With the actual allocation being overweight to this by 0.2% as at 31 December 2022.
- Over the quarter, the Permira IV fund slightly outperformed its benchmark whereas the Permira V fund underperformed its benchmark, contributing mixed returns to the overall Fund return – with Permira IV contributing a relative return of 0.3% and Permira V contributing a relative return of -1.0%.
- Over the longer period of 12 months, Permira IV continued to marginally outperform its respective benchmark. However, since inception, both Permira IV and Permira V continued to slightly underperform their respective benchmarks, noting that Permira V is early in its lifecycle.

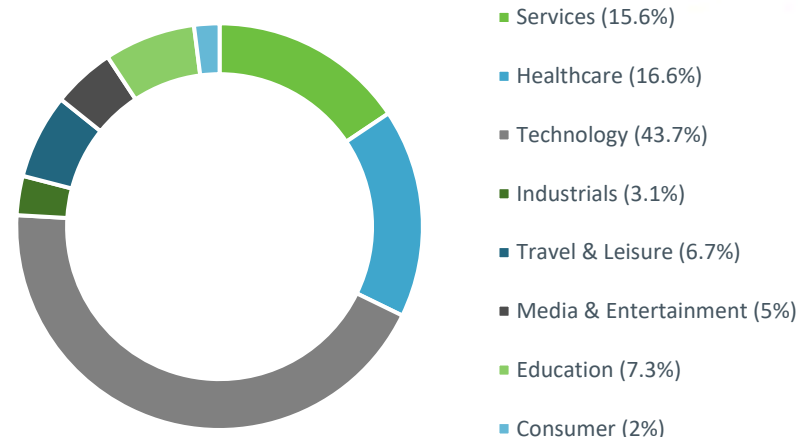
### Permira IV Fund Performance

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
Permira IV	2.0	5.7	3.8
Benchmark	1.7	5.4	4.7
Relative	0.3	0.2	-0.9

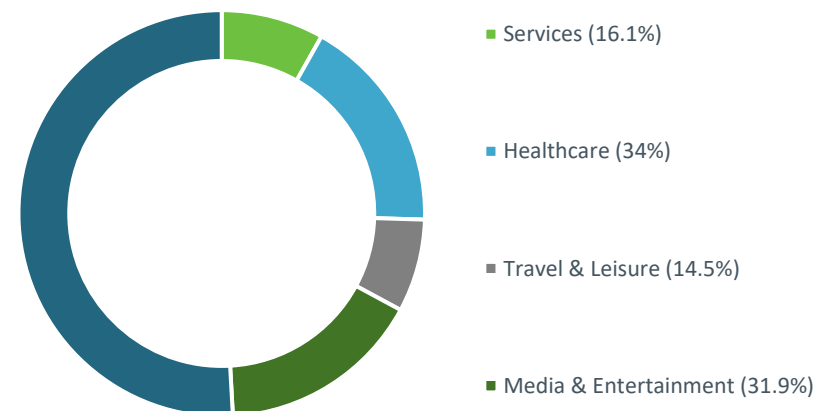
### Permira V Fund Performance

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
Permira V	0.6	-	0.7
Benchmark	1.7	-	3.1
Relative	-1.0	-	-2.3

### Permira IV Sector Allocation\*



### Permira V Sector Allocation\*



Source: Northern Trust, Permira  
 \* As at 30 September 2022 (latest available).

## Russell Currency Hedging

- Russell Investments have been appointed to manage the Fund's currency overlay mandate.
- The current policy is to hedge non-sterling exposures in the Fund's private markets mandates. Currency exposure in equity mandates is retained.
- At present, 100% of the exposure to USD, EUR and AUD from the private market investments is hedged within any residual currency exposure retained on a de-minimis basis.
- The volatility of returns (measured as the standard deviation of quarterly returns since inception) is 5.2% to date when the impact of currency fluctuations is included and only 4.8% when currency movements are stripped out by the Russell currency overlay mandate. This continues to indicate that the Russell mandate is reducing overall volatility and increasing the predictability of returns, as intended.

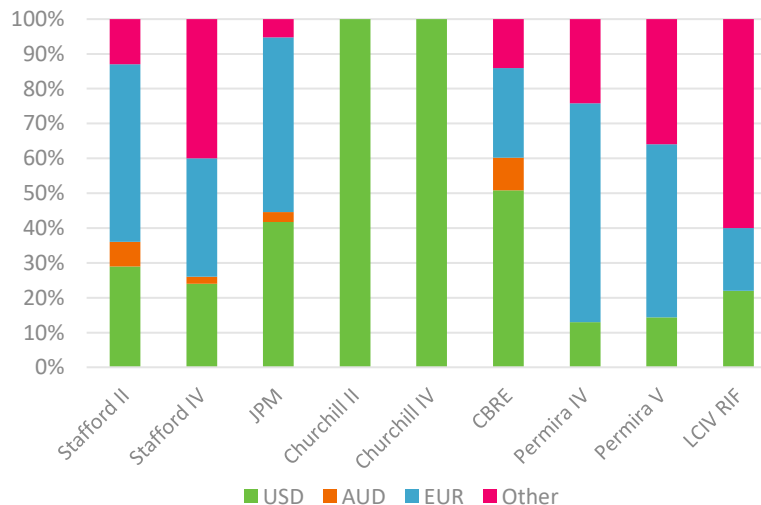
## Q4 2022 Performance

	Asset Return (inc. FX impact)	Currency Return (via Russell mandate)	Asset Return (ex. FX impact)	BM Return	Relative Return (ex. FX impact)
Stafford II	1.1	2.9	4.0	3.8	0.2
Stafford IV	4.8	2.8	7.6	3.8	3.6
JPM	-7.3	3.7	-3.5	3.8	-7.1
Churchill II	-6.0	8.5	2.5	1.7	0.8
Churchill IV	-6.3	8.7	2.4	1.7	0.8
CBRE	-9.1	4.8	-4.2	3.8	-7.7
Permira IV	2.0	1.2	3.2	1.7	1.5
Permira V	0.6	4.9	5.5	1.7	3.8
LCIV RIF	28.3	1.5	29.7	3.8	25.0

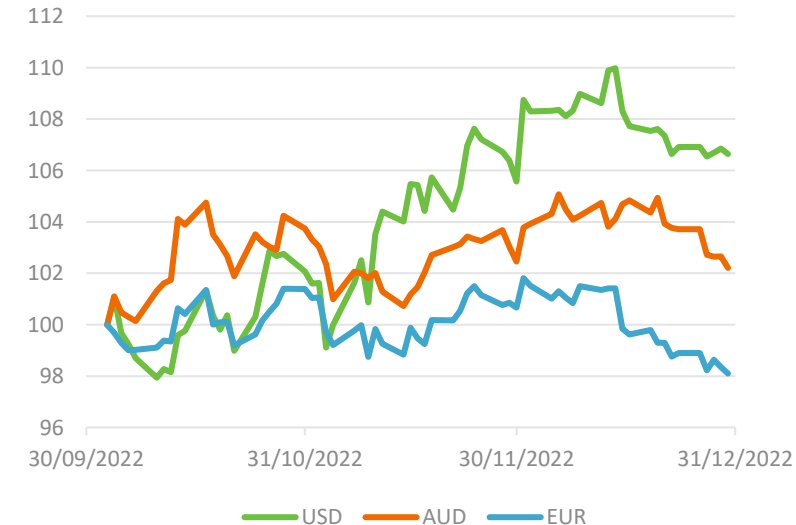
## Performance Since Mandate Inception\*

	Asset Return (inc. FX impact)	Currency Return (via Russell mandate)	Asset Return (ex. FX impact)	BM Return	Relative Return (ex. FX impact)
Stafford II	10.6	-1.8	8.8	9.1	-0.3
Stafford IV	22.5	-3.6	18.9	12.2	6.0
JPM	9.4	-2.4	7.0	9.3	-2.1
Churchill II	8.1	-3.8	4.3	4.7	-0.4
Churchill IV	15.8	-10.2	5.6	5.4	0.2
CBRE	10.0	-2.1	7.9	9.3	-1.2
Permira IV	3.8	-2.3	1.5	4.7	-3.0
Permira V	0.7	-5.2	-4.4	3.1	-7.2
LCIV RIF	18.5	-4.2	14.3	14.2	0.1

## Hedged Currency Exposure \*\*



## Sterling Performance vs. Foreign Currencies (Rebased to 100 at 30 September 2022)



Source: Northern Trust, Investment managers

\*Since inception performance is since individual fund inception of inception of the currency hedging mandate, whichever is more recent. \*\* As at Q3 2022 (latest available).

- Since March 2018, the Fund has made commitments to seven private markets funds as outlined right. The table provides a summary of the commitments and drawdowns to 31 December 2022.
- There are outstanding commitments of approximately £55m to the remaining funds which will be funded from the LCIV Diversified Growth Fund, other overweight positions alongside capital being returned from other mandates.

Page 32

Mandate	Infrastructure			Private Debt		
	Stafford Infrastructure Secondaries Fund II	Stafford Infrastructure Secondaries Fund IV	LCIV Renewable Energy Infrastructure Fund	Churchill Middle Market Senior Loan Fund IV	Permira Credit Solutions IV Senior Fund	Permira Credit Solutions V Senior Fund
<b>Commitment Date</b>	25/04/2018	18/12/2020	30/06/2021	29/09/2021	12/2018	07/11/2022
<b>Fund Currency</b>	EUR	EUR	GBP	USD	EUR	EUR
<b>Gross Commitment</b>	€28.5m	€30m	£25m	\$26.5m	£36.0m	£43.0m
<b>Gross Commitment (GBP estimate)</b>	£25.3m	£26.6m	-	£22.0m	-	-
<b>Net Capital Called During Quarter (Payments Less Returned Capital)</b>	-	£1.4m	£0.2m	£2.1m	-	£10.5m
<b>Net Capital Drawn To Date</b>	£26.3m	£13.7m	£7.1m	£14.7m	£28.3m	£10.5m
<b>Distributions/Returned Capital To Date (Includes Income and Other Gains)</b>	£13.0m	£0.4m	-	£0.9m	£3.4m	-
<b>NAV at Quarter End</b>	£20.2m	£15.8m	£9.6m	£14.8m	£29.6m	£10.9m
<b>Net IRR Since Inception *</b>	10.5% p.a. (v. 8-9% target)	29.1%	-	10.59%**	7.6%	-
<b>Net Cash Yield Since Inception*</b>	7.6% p.a. (v. 5% target)	5.2%	-	-	-	-
<b>Number of Holdings*</b>	22 funds	11 funds	-	108 investments	83 investments	23

\*as at 30/09/2022 (latest available) \*\*Refers to IRR of realised assets in the portfolio

Source: Investment Managers

Q4 Growth outturns surprised to the upside as US labour and consumer demand remains resilient while the economic impact of potential European gas shortages abated more recently.

Despite more recent upwards revisions for some economies, global growth forecasts for 2023 fell over the quarter, as high inflation and tighter monetary policy weigh on the outlook.

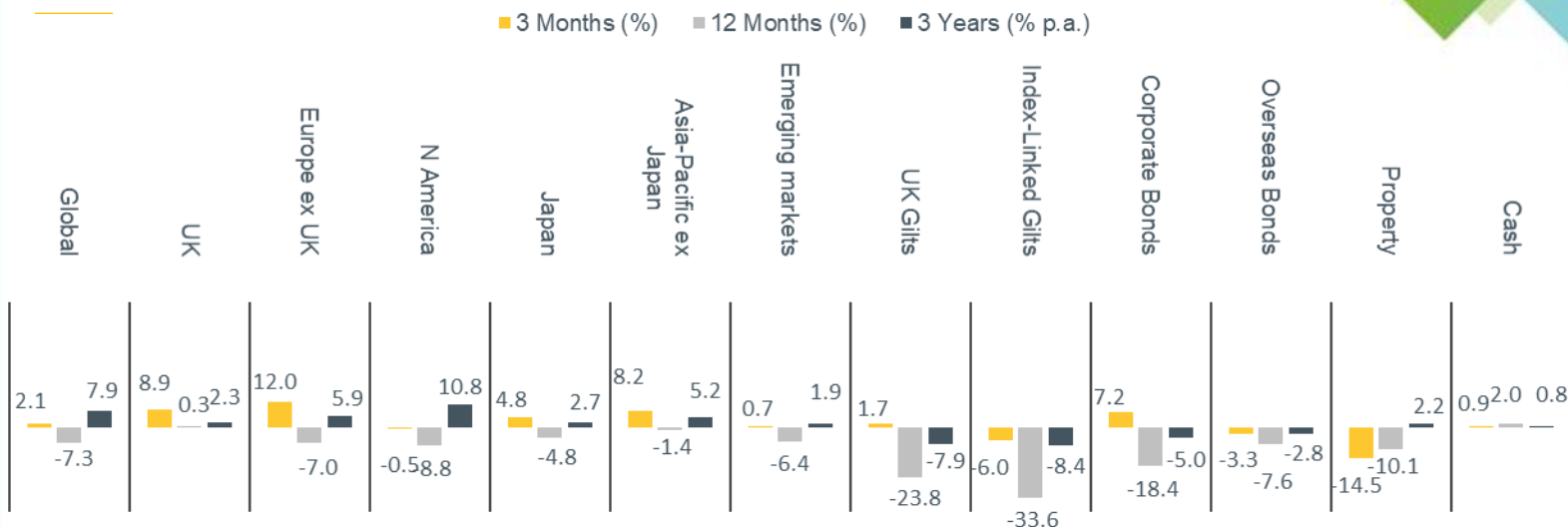
Downside CPI surprises, support the idea that inflation peaked in Europe and the US. Year-on-year headline CPI inflation fell to 7.1%, 10.7%, and 10.1% in the US, UK, and Eurozone, respectively, in November.

After a round of 0.75% p.a. interest rate rises, major central banks shifted down to smaller 0.5% p.a. increases in December. The 1.25% p.a. of rate rises delivered by each of the major central banks in Q4 takes policy rates in the US, UK, and Eurozone to 4.5% p.a., 3.5% p.a., and 2.0% p.a., respectively.

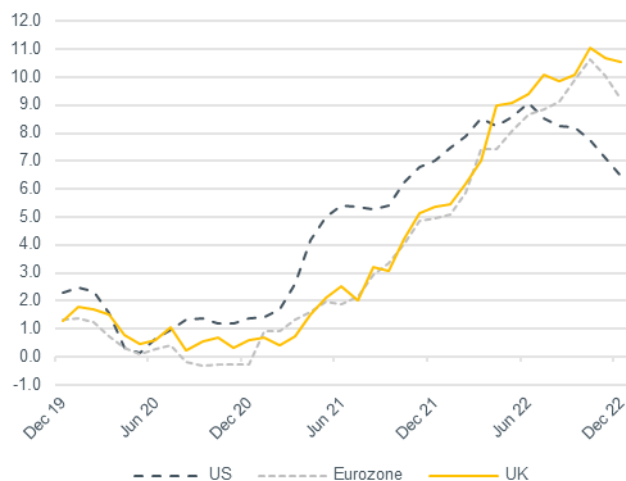
UK 10-year yields ended the period at 3.7% p.a., 0.5% p.a. below end-September levels. Equivalent US yields rose 0.1% p.a., to 3.9% p.a., and German yields rose 0.5% p.a., to 2.6% p.a., respectively. Japanese yields rose 0.2% p.a., to 0.4% p.a., as the Bank of Japan loosened the target range for 10-year yields under its yield curve control policy.

UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.6% p.a. to 3.4% p.a. Equivalent US implied inflation rose 0.1% p.a., to 2.3% p.a.

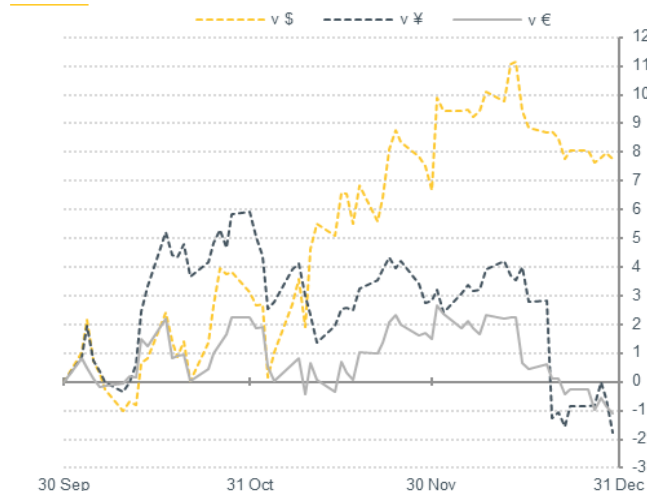
Historic returns for world markets [1]



Annual CPI Inflation (% p.a.)



Sterling trend chart (% change)



Source: DataStream. [1]Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

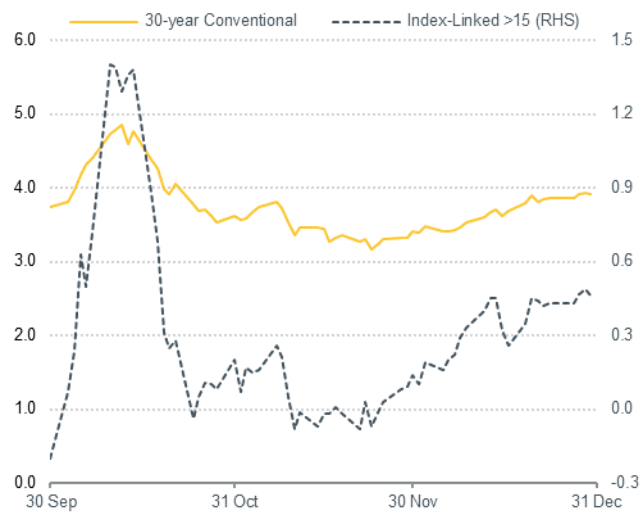
Global investment grade credit spreads fell 0.3% p.a., to 1.5% p.a., while speculative-grade spreads fell 1.0% p.a., to 5.1% p.a. Speculative-grade default rates have risen a little since the start of 2022 but remain below long-term average levels.

The FTSE All World Total Return Index rose 7.6% (local currency). The energy sector outperformed amid record earnings reports, as did Industrials and basic materials. Consumer discretionary and technology stocks underperformed as the cost-of-living squeeze intensified. Europe ex-UK outperformed the most while Japan notably underperformed on the back of yen strength and doubts over ongoing monetary support from the Bank of Japan.

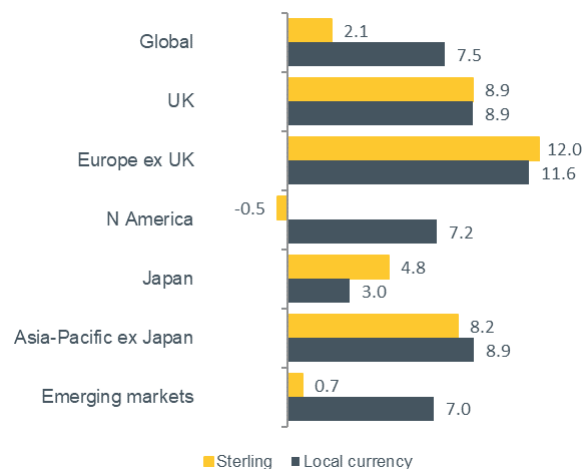
Easing inflation in the US saw the US dollar fall 4.8% in trade-weighted terms, reducing its year-to-date gains to 6.3%. Equivalent sterling, euro, and yen measures rose 1.9%, 4.4%, and 5.2%, respectively.

MSCI UK Monthly Property Index declines slowed from falling 0.5% in November to falling 0.03% in December. The extent of recent declines in capital values, which are now 20% below their June peak, has been the primary driver. Capital values have fallen across the 3 main commercial sectors but have been most notable in the industrial sector, where they have fallen 27% since the end of June.

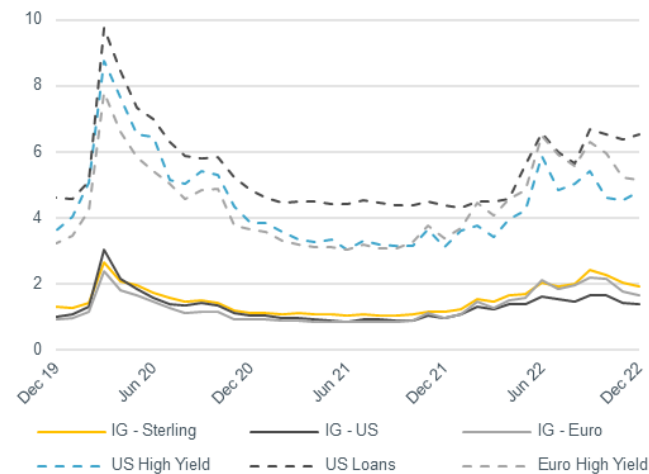
Gilt yields chart (% p.a.)



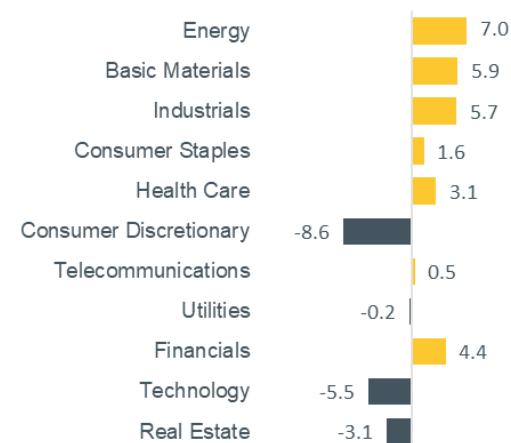
Regional equity returns [1]



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



Global equity sector returns (%) [2]



Source: DataStream, Barings, ICE [1] FTSE All World Indices. Commentary compares regional equity returns in local currency. [2] Returns shown in Sterling terms and relative to FTSE All World.

Asset Class	Market Summary
Equities	<ul style="list-style-type: none"> <li>Consensus global corporate earnings growth expectations for 2023 continue to see downward revisions and now sit at a very modest 2.5%. There are tentative signs that these earnings revisions are bottoming out, but the backdrop for earnings growth looks challenging and downside risks remain. Although equity prices fell significantly in 2022, valuation multiples, which are broadly in-line with long-term averages, look vulnerable to contraction as slowing growth puts further pressure on earnings.</li> </ul>
Investment Grade Credit	<ul style="list-style-type: none"> <li>Interest coverage is high, but higher absolute yields and slowing earnings growth will weigh on debt affordability. Lower debt levels and longer terms, means the impact on affordability will be less severe in investment- than speculative-grade markets. Although credit spreads have fallen sharply since their October peak as technical conditions improved, we still see the possibility of attractive risk-adjusted returns at current yield levels.</li> </ul>
Emerging Market Debt	<ul style="list-style-type: none"> <li>Local currency emerging market debt yields are at attractive levels and the asset class should be supported by easing inflationary pressures and a stabilisation in the US dollar. Hard currency debt will also derive some benefit from the recent easing in US dollar strength, alongside an apparent peak in US treasury yields and spreads which are at very attractive levels relative to history.</li> </ul>
Liquid Sub-Investment Grade Debt	<ul style="list-style-type: none"> <li>Speculative-grade default rates remain low but are expected to increase in 2023. Though healthy debt affordability and a lack of immediate refinancing requirements may limit the extent of the rise in defaults, US high yield spreads, at long-term median levels, may be vulnerable to slowing growth and tightening lending conditions. We currently hold a slight preference for traded loans, over high yield bonds, with the premium on loans over US high yield at elevated levels relative to the post-GFC history.</li> </ul>
Private Lending	<ul style="list-style-type: none"> <li>Although leverage levels have come down in managers' pipelines, LTVs remain low given high private equity multiples. While defaults remain low, we expect these to rise with concerns on labour, input, and energy costs squeezing EBITDA margins. Overall, we are more cautious on private loan markets versus traded loan markets as valuations remain unattractive.</li> </ul>
Core UK Property	<ul style="list-style-type: none"> <li>While nominal rental growth remains positive, the latest RICS UK Commercial Property Market Survey points to a deteriorating fundamental backdrop. A continued sharp decline in capital values has resulted in a sharp rise in net initial yields, but they remain low relative to history. Technical conditions also remain challenging: transaction levels remain low, but a large number of sales will be required to meet the flood of redemption requests from UK property investors.</li> </ul>
Conventional Gilts	<ul style="list-style-type: none"> <li>High inflation remains a fundamental challenge for nominal gilts while BoE asset sales and increased issuance pose a technical headwind. However, yields are attractive relative to longer term fair value and base effects and weak economic activity should ease the pressure on the BoE to continue raising rates in 2023. Quantitative tightening and low forward yields make us more cautious on both real and nominal longer-dated yields.</li> </ul>
Index-Linked Gilts	<ul style="list-style-type: none"> <li>Even adjusting for the additional inflation protection (typically around 1.0% p.a. over the longer-term) afforded to index-linked gilts until RPI is aligned with CPIH in 2030, and high near-term inflation, long-dated implied inflation still looks a little expensive. The front end of the curve looks to offer better value.</li> </ul>

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

## Risk Warning

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

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

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## Geometric vs. Arithmetic Performance

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

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

Some industry practitioners use the simpler arithmetic method as follows:

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

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

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

By virtue of  
Regulation 21(1)(A) of the Local Authorities (Executive  
Arrangements) (Access to Information) (England)  
Regulations 2000.

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Regulation 21(1)(A) of the Local Authorities (Executive  
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Regulations 2000.

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## PENSIONS COMMITTEE

21 March 2023

**Subject Heading:**

**INVESTMENT STRATEGY UPDATE -  
CONSIDERATIONS**

**CLT Lead:**

**Dave McNamara**

**Report Author and contact details:**

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

**Policy context:**

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

**Financial summary:**

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

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

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

### **SUMMARY**

This report includes a paper produced by the Fund Investment Advisor, as set out in Appendix A (exempt), as a follow up on the Fund's Actuarial valuation as at 31 March 2022, reviewing whether any changes were necessary to the current Investment Strategy Statement.

**Appendix A of this report is exempt from publication by virtue of paragraph 3 and 5 of the Access to Information Procedure Rules set out in the Constitution pursuant to Schedule 12A Local Government Act 1972, as amended as it**

**contains information relating to the financial or business affairs of the investment managers already appointed to the Fund and the potential disinvestment of an investment with an existing investment manager.**

**RECOMMENDATIONS**

That the Committee is asked to:

1. Agree the proposed recommended changes to the Fund's investment strategy as set out in Appendix A (exempt), page 3 refers.

**REPORT DETAIL**

**1. Background**

- a) The Committee agreed the current Investment Strategy Statement (ISS) at its meeting on the 29 July 2020 and have on a number of occasions since then proceeded with the implementation and development of that ISS.
- b) Following the Fund's Actuarial valuation as at March 2022 a review of the current ISS was carried out to ensure that it remained appropriate to meet its long term objectives, this being to ensure that the assets are invested to secure funding for member's benefits.
- c) Officers discussed the outcome of this review at a meeting in October 2022 in which it was suggested that employer contributions could be reduced subject to an adjustment to the investment strategy. It was also acknowledged of a need to shift towards "increased income" investments as part of any investment strategy changes and the progression of this strategy was later discussed in February 2023.
- d) Hymans, the Fund's Investment Advisor subsequently produced the Investment Strategy Update Considerations paper, as set out in Appendix A (exempt), for the Committee to consider and agree.
- e) This paper is exempt as it contains information pertaining to the financial or business affairs of Fund's investment managers and the Fund's potential disinvestment with an existing investment manager.

## IMPLICATIONS AND RISKS

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

Any changes made to the asset allocation will be funded from reducing or reallocating of assets within existing mandates held by the fund.

Advisory costs: The advisory costs of implementing the changes made to the investment strategy and its structure will be incurred through the Investment Management consultancy services contract with Hymans. Costs are ongoing throughout implementation and will be monitored closely by Officers - the final cost will not be known until this has concluded and is dependent on the direction of strategy options taken forward by the Committee.

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

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

Any discussions with regard to revisions to the ISS are in accordance with Local Government Pensions Scheme Investment Regulations 2016, Regulation 7 (7) The [authority](#) must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

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

None arise directly from this report.

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

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

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

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

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

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

**BACKGROUND PAPERS**

None

By virtue of paragraph(s) 4 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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## PENSIONS COMMITTEE

21 March 2023

**Subject Heading:**

**DRAFT CLIMATE RISK POLICY**

**CLT 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:**

**Develop the Fund's plan for  
addressing climate risk**

**Financial summary:**

Exempt from publication

**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

Appendix A to this report sets out the proposed content of a draft climate transition plan and policy for the Committee to discuss before the final version is submitted for approval at a later meeting.

**RECOMMENDATIONS**

That the Committee:

Consider the Hymans Report at Appendix A and discuss the outline structure and content of the proposed climate risk policy.

**REPORT DETAIL**

1. Hymans will discuss with the Committee the outline structure and content of the proposed climate policy to gather views and feedback with the aim of finalising the policy at the following Committee meeting in July 2023.

**2. BACKGROUND**

- a. The Committee on the 29 July 2020 agreed and published a Statement of Investment Beliefs and a Responsible Investment policy, which are included in the Fund's Investment Strategy Statement (ISS). This reflects the broad views of committee members on investment, Environmental, Social, Governance (ESG), and climate matters.
- b. The Committee belief - "*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*".
- c. Climate factors were a major consideration in developing the ISS, and in particular have already implemented the following:
  - 16 March 2021- agreed to invest 2.5% in a \*London Collective Investment Vehicle (LCIV) renewable energy infrastructure fund
  - 14 September 2021 – agreed to switch assets from the LCIV Global Alpha Fund (15%) to the LCIV Global Alpha Paris Aligned variant
  - 20 July 2021 – agreed to invest 10% of the Funds' assets into the Legal and General Investment Management (LGIM) Future World, which is an equity allocation with a climate-tilted focus.

- 03 December 2021 – Agreed to invest 5% of its passive equity investments the LCIV Passive Equity Progressive Aligned (PEPPA) Fund
- d. The Committee's Business Plan for 2022/23, agreed at its meeting on the 15 March 2022, includes the development of a broader climate risk management action plan.
- e. The Climate Risk Management Plan follows on from the climate risk workshop held on 24 November 2021.
- f. At the Pension Committee meeting on the 26 July 2022, the Committee received a presentation from Hymans, the Fund's Investment Consultant, which included the possible next steps in developing the Fund's plans for addressing climate risk within its portfolio.
- g. At the Pension Committee meeting on the 20 September 2022, the Committee was presented with a baseline assessment of several carbon metrics which identified gaps in data and set out those asset types where data is harder to collect and measure. Assessing the Fund's current position against a series of standard metrics will address ongoing reporting requirements.
- h. The Pensions Committee on the 13 December 2022 considered the indicative plans/actions and timescales in developing the Fund's plans for embedding climate risk management into the Fund.
- i. An education session on climate metrics was delivered to the Committee on the 6 March 2023, in preparation for the discussions on setting objectives and goals for inclusion in the climate risk policy.
- j. The Committee is requested to discuss the outline structure and content of the draft climate policy as proposed in **Appendix A**.

## IMPLICATIONS AND RISKS

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

Climate related risks and broader ESG factors are a source of financial and reputational risk. The Committee have agreed a climate risk management plan is a necessary part of its fiduciary duty.

The Committee has established and published a Statement of Investment Beliefs, which reflects the broad views of committee members on investment, ESG and

climate matters. These beliefs are documented in the Investment Strategy Statement and include financial materiality of climate risk.

The Department of Levelling Up, Housing and Communities (DLUHC) has completed its consultation on the implementation of Task Force on Climate related Financial Disclosures (TCFD) reporting for Local Government Pension Schemes. Guidance is expected to be published in the early part of 2023 with reporting requirements expected to start on 1 April 2023 and the first Climate risk annual report due December 2024.

The Committee's current approach to addressing climate risk will mean that the TCFD requirements will largely be met but can be tested against the final requirements once these are published.

There will be a cost to the Pension Fund for the work carried out by Hymans to develop the Climate Risk plan, this was presented to the Committee and agreed at the 13 December 2022 meeting (exempt from publishing the costs on the grounds that the financial information is commercially sensitive).

**Legal implications and risks:**

The Authority does have a broad discretion under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946), after taking proper advice, to formulate an investment strategy which must include the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;

Therefore, the climate risk issues are relevant matters for the Committee to consider. However, there no other apparent implications arising directly from consideration of the content of the Report.

**Human Resources implications and risks:**

There are no immediate HR implications.

**Equalities implications and risks:**

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

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

(iii) Foster good relations between those who have protected characteristics and those who do not.

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

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

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

***BACKGROUND PAPERS***

None

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# London Borough of Havering Pension Fund

Draft Climate Risk Policy

- Simon Jones, Partner
- Mark Tighe, Associate Investment Consultant

February 2023



# Executive Summary

## Introduction

- This paper is addressed to the Pensions Committee (“the Committee”) of the London Borough of Havering Pension Fund (“the Fund”).
- The purpose of this paper is to set out the content of a draft climate transition plan and policy for Committee discussion. The aim is to set out the areas for inclusion, potential actions and

This paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation without our prior written consent. We accept no liability where this note is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the note may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

## Overview

- Our preference is that the climate policy be action oriented, setting out in greater detail the actions that will be taken to address each agreed objective. This is consistent with the broader aspiration to adopt a net zero goal, beyond the requirements of TCFD
- The suggested sections are:
  1. Introduction
  2. Beliefs
  3. Objectives/Actions
  4. Process/Governance
  5. Monitoring/reporting
- On subsequent pages, we have set out potential content or the scope of content to be incorporated in the plan/policy for discussion/comment by Committee

## Next Steps

- Committee to discuss outline structure and content of climate policy and provide comment at March 2023 meeting
- Hymans to develop formal policy/plan
- Final policy to be considered and agreed at July 2023 meeting

# Section 1: Introduction

## Suggested statement

The Committee consider that climate change represents a material financial risk to the Fund with the potential to disrupt economic, financial and social systems. However, the potential impact on the Fund is unknown given policy uncertainty and the unknown physical feedbacks from environmental systems. Risks to the Fund arising from climate change include, but are not limited to:

- Economic risks: risks that the assumptions made in valuing the liabilities are inappropriate;
- Demographic risks: risks that demographic experience is different to that assumed as a consequence of climate related impacts;
- Asset risks: risks that the performance of the Fund's assets is lower than assumed due to investments being affected directly by the physical impacts from climate change, the repricing or assets to reflect future physical risks or the transition to a lower carbon economy.

This policy sets out the Committee's approach to addressing climate related risks within the Fund and is intended to deliver strong long-term financial returns, in line with its overall funding objectives, as the impacts of climate change materialise.

## Other issues to consider in initial statement

- Associated risks arising with climate change such as biodiversity
- The role of and potential reliance on different parties including officers, advisers, other LGPS stakeholders
- The regulatory framework

# Section 2: Beliefs

**It is often helpful to set out a statement of beliefs that can guide future decision making. Potential statements of belief in respect of climate change could be as follows:**

- The Committee believe that climate change and the expected transition to a low carbon economy is a long-term financial risk to Fund outcomes and is considered as a part of their fiduciary duty.
- Climate-related risks are systemic in nature and have the potential to impact the delivery of return from all asset classes and sectors to varying degrees. Such impact may be positive or negative.
- All companies have some level of exposure to climate-related risks, particularly transition risks, but that sector, geography, price, policy uncertainty and investment timeframes are contributing determinants of risk exposure.
- Investment solutions aimed at managing and mitigating climate-related risks, or delivering real world change can provide opportunities to long term investors such as the Fund;
- The actions to be taken in addressing climate change within the Fund should be focused on real world outcomes rather than improvements in reported metrics
- Climate change will have an impact on other environmental and social systems and hence action to address the associated risks that may arise are consistent with a response to climate change
- Collaboration with other parties, including asset owners and managers, is likely to be the most effective method for delivering change at the scale necessary to have a meaningful impact

# Section 3: Objectives & Action plan

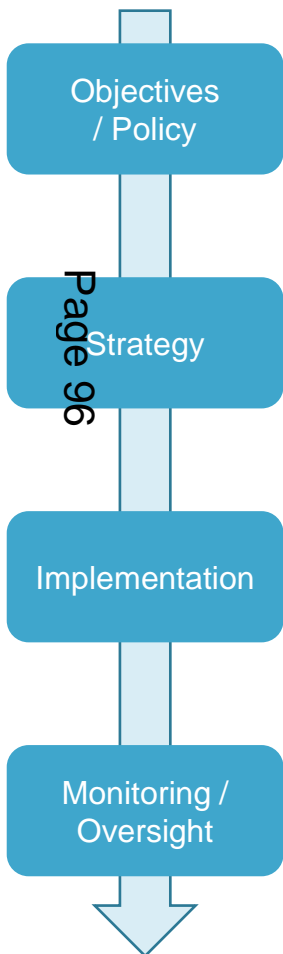
Framing a net zero ambition has multiple associated objectives. We propose that the Committee set out and then expand the objectives, the associated KPIs and the various actions the Committee will take to achieve the goals. The areas we propose be covered are as follows:

Objective area	Broad goals/KPIs	Associated actions
Emissions reduction	<ul style="list-style-type: none"> <li>Set goals for emissions reduction relative to 2022 baseline by 2030.</li> <li>Aim to focus on real world and comparable emissions reductions</li> </ul>	<ul style="list-style-type: none"> <li>Consider potential trajectory of high emitting portfolios</li> <li>Assess whether or not on target and action to influence/ reallocate</li> </ul>
Alignment with the Paris goals	<ul style="list-style-type: none"> <li>Set targets for portfolio that is aligned/aligning by certain date of 2030</li> </ul>	<ul style="list-style-type: none"> <li>Establish the baseline position in measurable portfolios</li> <li>Set out how engagement will be used to influence change and actions that will be taken if goals not met</li> </ul>
Investment in material sectors	<ul style="list-style-type: none"> <li>Goals for % of portfolio invested in sectors with high emissions</li> <li>Set clear definitions for relevant sectors</li> </ul>	<ul style="list-style-type: none"> <li>Establish the baseline position in measurable portfolios</li> <li>Set out how engagement will be used to influence change and actions that will be taken if goals not met</li> </ul>
Investment in climate solutions	<ul style="list-style-type: none"> <li>Goals for % of portfolio invested in sectors which are contributing to solutions</li> <li>Set clear definition as to what constitutes a solution</li> </ul>	<ul style="list-style-type: none"> <li>Consider reasonable target and asset classes that may be encompassed</li> <li>Determine how this will be embedded in agreed asset allocation</li> </ul>
Engagement with key parties	<ul style="list-style-type: none"> <li>Expectation of managers and voting</li> <li>Areas to focus engagement activity</li> </ul>	<ul style="list-style-type: none"> <li>Consider key subjects and engagement processes</li> <li>Define expectations and communicate intentions</li> <li>Put in place reporting</li> </ul>
Transparency	<ul style="list-style-type: none"> <li>Expectations around data quality</li> <li>Targets for data improvement/coverage</li> </ul>	<ul style="list-style-type: none"> <li>Finalise baseline measurement and communicate expectations</li> </ul>

# Section 4: Governance/Processes

Aim to set out detail on the approach and processes employed by the Committee within the overall investment process, and the roles and responsibilities of each party. Issues to cover include:

Issue to cover	Potential statements for discussion
<ul style="list-style-type: none"> <li>How objectives are set and reviewed</li> </ul>	<ul style="list-style-type: none"> <li>The Committee's wider objectives recognise the risks posed by climate change. The Committee regularly reviews climate-related risks to ensure these are being properly accounted for.</li> </ul>
<ul style="list-style-type: none"> <li>Asset allocation and the use of climate scenario analysis – role of analysis in the evaluation of asset allocation</li> </ul>	<ul style="list-style-type: none"> <li>The Committee will undertake climate scenario analysis to help inform the potential economic impact of climate-related risks. Output from the scenario analysis will support decision making with regard to asset allocation.</li> </ul>
<ul style="list-style-type: none"> <li>Risk management – framework employed for assessing and grading potential risks, approach for reporting and action to be taken for breaches</li> </ul>	<ul style="list-style-type: none"> <li>The Committee will work with its investment managers to define a set of acceptable standards with regard to how underlying managers account for and integrate climate-related risk into their investment process. Underlying managers will need to meet these standards on appointment regular assessment will ensure that these standards are being upheld. On at least an annual basis, the Committee will review the set of acceptable standards and its underlying managers adherence to these standards.</li> </ul>
<ul style="list-style-type: none"> <li>Opportunity identification – approach used to identify the potential opportunities and frequency of approach</li> </ul>	<ul style="list-style-type: none"> <li>Through regular liaison with their Investment Consultant, the Committee will actively consider opportunities in the development of their investment strategy/structure to make investments in assets that are expected to benefit from the transition to a low carbon economy.</li> </ul>
<ul style="list-style-type: none"> <li>Approach to the implementation of stewardship, framework for evaluating progress and providing feedback. Aspirations of stewardship approach.</li> </ul>	<ul style="list-style-type: none"> <li>The Committee's approach to stewardship is set out in their Responsible Investment Policy</li> <li>The Committee will utilise regular climate reporting to identify areas of high climate risk and engage with underlying managers as required to ensure these risks are being properly mitigated and understood</li> </ul>
<ul style="list-style-type: none"> <li>Monitoring – responsibilities of different parties, approach for data collection, frequency of data collection and publication, action to be taken where there is non-disclosure</li> </ul>	<ul style="list-style-type: none"> <li>The Committee recognises the importance of monitoring exposure to climate related risks in different ways. One way the Committee will facilitate this is by monitoring the carbon risk exposure of each underlying mandate, taking action if expected levels of progress are not being made. <i>[Reporting frequency (annual?) commitment]</i></li> </ul>
<ul style="list-style-type: none"> <li>Oversight and training of the Committee and other relevant parties</li> </ul>	<ul style="list-style-type: none"> <li>The Committee recognises that training and education is critical to achieving good outcomes for its stakeholders and will allocate resources to ensure that it undertakes regular training and education on climate risk. <i>[Minimum training frequency commitment]</i></li> </ul>



# Section 5: Monitoring/Reporting

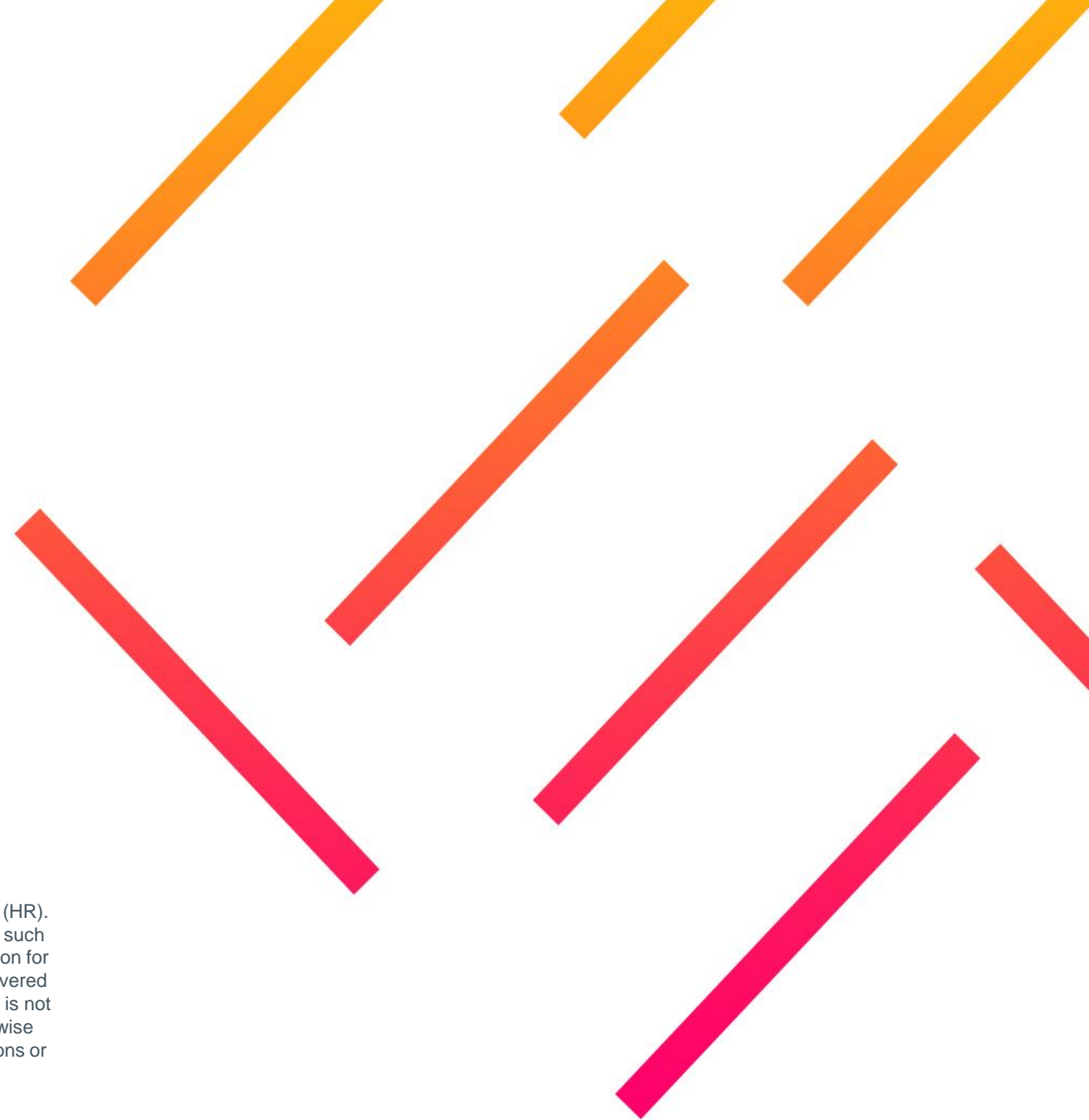
Aim to set out the manner in which the Committee will both require and demonstrate accountability to its stakeholders, through reporting:

- The Committee expects managers to progressively improve their reporting/data/assessment of climate risk. Committee can consider naming and shaming if it deemed it appropriate.
- Committee can also include other risk assessments or managers, advisers etc and report on conclusions that are drawn
- Committee will have a requirement to report in line with TCFD but suggest that reporting is more comprehensive than minimum requirements to demonstrate the aspirations that are held
- The Committee will monitor exposure to climate related risks within its portfolios on an annual basis, considering *[exposure to carbon reserves; overall carbon intensity and alignment with future climate scenarios.]*
- Committee should consider an actions/outcome approach to its reporting, demonstrating how it has taken steps to achieve its goals

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# Thank you

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## PENSIONS COMMITTEE

**Subject Heading:**

Review of the policy for the overpayment of pensions following the death of a pensioner or dependant member

**SLT Lead:**

Dave McNamara  
Statutory Section 151 and Chief Finance Officer

**Report Author and contact details:**

Caroline Guyon  
01708 432185  
[Caroline.guyon@havering.gov.uk](mailto:Caroline.guyon@havering.gov.uk)

**Policy context:**

Local Government Pension Scheme Regulations 2013

**Financial summary:**

In applying the policy to automatically write off pension overpayments of less than £250 following the death of a pensioner or dependant member, where there is no ongoing dependant pension payable, has resulted in overpayments of £4,321.89 being written off during 2021/22.

**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**

It is good practice to ensure the Authority has a policy in place regarding the treatment of overpaid pensions following the death of a pensioner or dependant member.

A 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.

This ensures that any overpayments are treated in a fair and equitable manner and will prevent the administration team seeking individual write off approvals. It was agreed that the policy would be reviewed annually.

During 2021/22 the overpayments written off in line with the policy totalled £4,321.89, which falls within the expected average of £5,000 in any financial year.

**RECOMMENDATIONS**

It is recommended that the Committee agree to the continuation of the Policy for the overpayment of pension following the death of a pensioner or dependant member for a further year.

**REPORT DETAIL**

1. Notification of the death of a pensioner or dependant member does not always happen immediately. When notified in time the payroll team will stop or recall the last monthly pension payment to prevent a potential overpayment of pension benefits.
2. If this is unsuccessful, the current policy allows the Pension Fund (“the Fund”) to automatically write off an overpayment of pension of less than £250 net, where there is no ongoing dependant pension to be paid.
3. A value of less than £250 net in the instance of the death of a pensioner or dependant member has been deemed by Officers as uneconomical to pursue when taking into account the cost of the administration involved in additional correspondence and raising and chasing an invoice. The cost of this work has been estimated as £76.91 per case.
4. It is also important to take into account the reputation of the Authority in seeking to recover relatively small amounts from bereaved relatives.

5. Where there is an ongoing dependant benefit due this can be used to recover any overpaid pension, regardless of the value of that overpayment.
6. An invoice will be raised by the Fund to recover an overpayment which is £250 net or more following the death of a pensioner or dependant member which is then chased and escalated in line with the Authority's debt collection procedure.
7. The total debt automatically written off during 2021/22 in line with the policy was £4321.89 covering 48 different cases, which is an average of £90.04 per case, and falls below the expected average of £5,000 per annum.

## **IMPLICATIONS AND RISKS**

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

It is not economical to pursue recovery of any overpayment below £250 net – cases are few and the amount of write –off in any year is typically less than £5,000.

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

There are no apparent legal implications or risks within the content of this Report.

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

There appear to be no HR implications or risks arising directly that impact on the Authority's workforce.

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

There are no direct equality implications regarding this matter.

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

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

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

The Authority 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 Authority is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants. We will ensure that disabled people with sensory impairments are able to access the strategy.

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## PENSIONS COMMITTEE

<b>Subject Heading:</b>	Pensions Administration Budget 2023/24
<b>SLT Lead:</b>	Dave McNamara Statutory Section 151 and Chief Finance Officer
<b>Report Author and contact details:</b>	Caroline Guyon Pensions Projects and Contracts Manager 01708 432185 Caroline.guyon@havering.gov.uk
<b>Policy context:</b>	Local Government Pension Scheme Regulations 2013
<b>Financial summary:</b>	The proposed budget for 2023/24 is £0.562m to be met by the Pension Fund. This is an increase of £43,000 on the original budget set for 2022/23.

### 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 administration of the Havering Local Government Pension Scheme (LGPS) is provided via a shared service agreement with Lancashire County Council (LCC) who delegate the function to the Local Pensions Partnership Administration (LPPA).

This report details the LPPA's proposed budget for 2023/24 of £0.533m, an overall increase of 2.66% from 2022/23, for agreement by Committee.

**RECOMMENDATIONS**

The Committee are asked to:

- Approve the 2023/24 budget of £0.533m for the provision of the LPPA pension administration service.

**REPORT DETAIL**

**1 Background**

- 1.1 In November 2017 the London Borough of Havering entered into a delegated agreement (Local Government Act 1972) with LCC, for its pension administration service. LCC's pension administration service is provided by LPPA.
- 1.2 In line with the Service Agreement LPPA, on behalf of LCC, will propose an annual budget for the following financial year, which will be presented by officers for agreement by the Pension Committee. If no agreement is provided then the budget will be increased in line with the annual Consumer Price Index (CPI) for the month of September in the preceding year. The CPI index rose by 10.1% in the 12 months to September 2022 which is higher than the proposed overall budget increase of 2.66%.

**2 Budget Proposal**

- 2.1 LPPA, have proposed a budget of £0.533m for the 2023/24 financial year. This is based on membership data as at August 2022 of 20,072 Fund members and equates to £26.56 per member.

2.2 In 2022/23 the budget was £0.519m which means an overall cost increase of 2.66%, or 0.5% increase per member.

**Table 1: Summary of Budget Change**

	<b>Number of Members</b>	<b>Budget</b>	<b>Cost per Member</b>
2022-23 Budget	19,646	£519,244	£26.43
2023-24 Budget	20,072	£533,076	£26.56
Difference/Increase Amount	426	£13,832	£0.13
Difference/Increase %	2.17%	2.66%	0.5%

2.3 When setting the budget, LPPA's key considerations were:

- a. An increase to cover forthcoming regulatory changes, ie remedy following the McCloud Judgement and Pensions Dashboards
- b. Staffing Cost Increase
  - i. Additional headcount recruited to provide operational resilience and service improvement post go live to the new pension administration system
  - ii. Average 7% pay award for staff
- c. An increase in recruitment and training costs following significant staff turnover
- d. The increased costs have been part offset by LPPA's Efficiency and Service Improvement Plan which aims to deliver a reduction in headcount and efficiency gains from the new pension administration system.

2.4 The proposed budget settlement of £0.533m, is LPPA's estimate for the financial year. Officers are provided with quarterly forecasted finance performance data, looking at outturn projections and future budget proposals.

2.5 Effective from financial year 2024/25 LPPA expect to deliver savings in respect of the reduction in resilience roles and an increase in productivity and efficiencies from the new pensions administration system. This will be also be monitored as part of quarterly finance performance data.

2.6 LPPA use CEM Benchmarking which compares 13 similar schemes (8 of which are LGPS). The peer group average cost per member is £28.36 which is above the cost per member following this proposed budget increase.

**3. 2022-23 Outturn Position**

- 3.1 At the end of each financial year LPPA will confirm any variance against the budget and the Fund will receive either an invoice or remittance for the balance.
- 3.2 At the end of Q3 LPPA have advised of a forecasted overspend of approximately £14,000 against the 2021/22 budget. However there will be no true-up for 2022/23 and any overspend will be spread over the 3 years following 2023/24.
- 3.3 This is largely due to an increase in headcount to support the migration to the new pension administration system. LPPA are committed to identifying opportunities to negate some of the over spend by the end of the financial year.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

The cost of pension administration is recharged annually to the Fund, the contract costs from LCC are factored into the budget and any increase in contract costs, once agreed, will result in the budget being increased and the additional cost met within the Fund.

**Legal implications and risks:**

The Council has delegated its pension administration functions to LPPA by an agreement which provides for termination on either party giving 12 month's notice but is otherwise indefinite.

The provisions relating to price are as follows:

*For the duration of this arrangement, in September of each year Lancashire will send to Havering a proposed budget for the next financial year including detail of any increases or efficiency savings from previous years. Havering will either agree or offer an amended budget proposal. In the absence of agreement by both Parties the budget will remain as per the previous year plus an inflationary uplift per CPI as at the September prior to the commencement of the budgetary year.*

*Once the proposed budget is agreed in principle, Havering will refer the proposed budget to its Pension committee or other appropriate body for approval. If approved the annual budget will be ring-fenced for Lancashire and transferred to Lancashire in twelve (12) equal monthly instalments. The actual budget spend will be monitored and reimbursed through a quarterly review process. At the end of each financial year any budgetary over or underspends will be adjusted accordingly.*

As result LPPA can propose a budgetary uplift of any value. As they are set up for full cost recovery the difference in the budget and the actual spend will always be adjusted with the authority.

It is open to the Council to not agree the budget proposal in which case it will be increased by CPI.

**Human Resources implications and risks:**

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

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

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**PENSIONS COMMITTEE**

**21 March 2023**

**Subject Heading:**

**REVIEW OF VOTING AND  
ENGAGEMENT ACTIVITY JUNE 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)  
To meet objectives set out in the  
Investment Strategy Statement

**Financial summary:**

No direct financial implications

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

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

**SUMMARY**

The attached report as Appendix A, produced by the Fund's Investment Advisor (Hymans), presents a summary of the Fund's investment mangers' Voting and Engagement activities over the 12-month period to **30 June 2022**.

**RECOMMENDATIONS**

That the committee:

1. Note Hymans review of Fund Manager Voting and Engagement activity attached as **Appendix A**.
2. Note the summary and recommendations as set out in **Appendix A (page 14)**.

**REPORT DETAIL**

1. **Background**

1. The attached report at **Appendix A**, produced by the Fund's Investment Advisor (Hymans), summarises the Fund's investment managers' Voting and Engagement activities' over the 12-month period to **30 June 2022**. This is in support of the Committee's ongoing annual monitoring requirement as set out in the Investment Strategy Statement (ISS) as follows:
  - a. Monitor the voting decisions made by all its investment managers and receive reports from their advisers to support this on an annual basis.
  - b. Request its investment manager provide details of any change in policy on an annual basis. The Committee will review these changes and, where necessary, will challenge managers to explain the reasoning for any change
  - c. Reviews voting activity by its investment manager and may also periodically review managers' voting patterns. The Committee will challenge its managers to explain voting decisions on certain issues, particularly with regard to climate risk disclosure.
2. Hymans report attached as **Appendix A** addresses the above for the Committee's consideration
3. The Fund does not have its own voting 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. This review having been undertaken by the Fund's Investment Advisor.

## **IMPLICATIONS AND RISKS**

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

No direct financial implications but the Committee has set an objective of seeking to ensure that voting policies and engagement are regularly reviewed and updated to ensure that changing practices and regulation can continue to be reflected where necessary.

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

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

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

None arise from this report.

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

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

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

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

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

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

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

**BACKGROUND PAPERS**

Background Papers List

None

# London Borough of Havering Pension Fund

## Review of Voting & Engagement Activity

- Simon Jones, Partner
- Mark Tighe, Associate Investment Consultant
- Jaid Longmore, Responsible Investment Associate Consultant

February 2023



# Executive summary

## Introduction

- This paper is addressed to the Pensions Committee (“the Committee”) of the London Borough of Havering Pension Fund (“the Fund”).

The purpose of this paper is to summarise the Fund’s investment managers’ voting and engagement activities over the 12 month period to 30 June 2022.

This paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation without our prior written consent. We accept no liability where this note is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the note may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

## Summary of observations

In this paper, we make the following observations:

- JP Morgan and Russell both re-applied and were successful in their subsequent submissions to become signatories to the 2020 UK Stewardship Code. While Russell became a signatory in March 2022, JP Morgan only became a signatory in September 2022.
- CBRE, Stafford, Churchill and Permira decided not to apply to become signatories. All other managers have been accepted as signatories.
- During the year, the Fund had investment through two managers across seven mandates with equity exposure. The two managers are LGIM and LCIV although LCIV’s policy is currently to delegate voting implementation to the underlying managers of the funds in which the Fund is invested, Baillie Gifford, Ruffer and State Street (SSGA)
- We note that over the year, the vast majority of votes that were eligible to be exercised were voted. Exercise rates for managers including LGIM, across mandate, and Ruffer was at least 99.6%. Baillie Gifford had a lower rate across their two mandates with at least 88.1% of votes exercised.
- All managers demonstrated a preparedness to vote against company management on occasion. LGIM voted against management most frequently with around 19% of votes, on average, against management. This was higher than the previous reporting period of 16%. This is consistent with the index-tracking nature of these mandates.
- Similar to last year, there was commonality in the reasons why managers voted against management with non-salary compensation and director-related resolutions being key themes. It should be noted that managers may vote against the re-election of directors for a number of reasons which may be unrelated to the particular director.

We look forward to discussing this paper with the Committee.

# UK 2020 Stewardship Code

- The 2020 code reflects the fact that the investment market has changed considerably since the publication of the initial code in 2012. Specifically, there has been a greater need to implement ESG criteria in assets other than listed equity, including fixed income, real estate and infrastructure.
- The new code attempts to reflect the diversity amongst asset groups in terms of investment periods, rights and responsibilities, and signatories to the 2020 Code will need to consider how to exercise stewardship effectively, and report accordingly across asset classes. Assessing a manager's willingness to incorporate the new code and understanding the central principles should be of interest to the Committee.
- The 2020 Code comprises twelve principles for asset owners and asset managers, listed right.
- Becoming a signatory is voluntary and to be listed as a signatory, asset managers and asset owners must report annually against each of the 12 principles, setting out the actions they have taken to meet the principle and the outcomes that have been achieved.
- Reports as published and the FRC evaluates reports to determine whether or not the standards of the Code have been met.
- The position of the Fund's managers is shown overleaf.

1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society;
2. Signatories' governance, resources and incentives support stewardship;
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first;
4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system;
5. Signatories review their policies, assure their processes and assess the effectiveness of their activities; and
6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8. Signatories monitor and hold to account managers and/or service providers.
9. Signatories engage with issuers to maintain or enhance the value of assets.
10. Signatories, where necessary, participate in collaborative engagement to influence issuers.
11. Signatories, where necessary, escalate stewardship activities to influence issuers.
12. Signatories actively exercise their rights and responsibilities.

# Summary of UK Stewardship Code adherence

Manager	Signatory of 2020 Code as at 30 June 2022	Applied for 2020 Code but unsuccessful	Comments
London CIV	Yes	-	
LGIM	Yes	-	
Baillie Gifford	Yes	-	
Ruffer	Yes	-	
Page 148 JP Morgan	No	No, successful in the September 2022 submission intake	<ul style="list-style-type: none"> <li>While unsuccessful in their original submission to the new code, JP Morgan made a subsequent submission and became a signatory of the UK Stewardship Code in September 2022.</li> <li>They made a number of changes to ensure a successful submission for their subsequent application. These include establishing a clearer governance structure with senior level oversight of stewardship and clearer reporting lines of stewardship activity; enhancing their Conflicts of Interest Policy; and increasing disclosure around engagement, collaboration and escalation</li> </ul>
UBS	Yes	-	
CBRE	No	No	<ul style="list-style-type: none"> <li>Considering a future application but no decision as yet</li> </ul>
Stafford	No	No	<ul style="list-style-type: none"> <li>Considering a future application but no decision as yet</li> </ul>
Royal London	Yes	-	
Churchill	No	No	<ul style="list-style-type: none"> <li>Churchill (and parent company Nuveen) are supportive of the principles of the Code but have no immediate intention of applying to become a signatory.</li> </ul>
Permira	No		<ul style="list-style-type: none"> <li>Considering a future application but no decision as yet</li> </ul>
Russell	Yes	-	<ul style="list-style-type: none"> <li>While unsuccessful in their first attempt under the new code, Russell re-applied in October 2021 and were successful in their application.</li> </ul>

# Principles for Responsible Investment

- The six Principles for Responsible Investment are a voluntary set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice.
- The principles were established in 2006 and are now supported by over 4000 signatories from over 60 countries
- Following pages set out each of the Fund's investment managers' signatory status and most recent assessment rating.
- Signatories are subject to annual reporting and assessment to demonstrate their compliance with the principles. There was a change in the grading system from alphabetical (A+ to E) to numerical (1 to 5 stars) from the 2021 assessment onwards
- At the time of writing, the 2021 assessment had not been made available by all managers so the 2020 rating of each of the Fund's managers is shown on the relevant asset class page throughout this report.

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

# Equity and multi-asset: Voting and engagement

## Delegation of voting

- The Fund has voting rights through its equity investment with LGIM and with LCIV (both directly, and indirectly via the Baillie Gifford Diversified Growth Fund, Ruffer Absolute Return Fund and SSGA Passive Equity Progressive Paris Aligned Fund ('PEPPA')).
- The Fund has delegated its voting responsibility to its investment managers. The LCIV currently delegate voting to the appointed managers. Therefore, the Fund's voting is carried out in line with the house voting policy of LGIM, Baillie Gifford, Ruffer and SSGA for the respective investments.
- LCIV has taken action to evolve its approach to stewardship with the appointment of Hermes EOS as a voting and engagement partner.
- Over the course of the year, LCIV have also developed their own Voting Policy, which is a set of guidelines based on 8 voting principles.

## Key topics

- We note that **climate change** and **diversity and inclusion** have been identified as areas of interest for Committee in the past. We have therefore focused on these areas when highlighting key votes and further engagement themes in our report.
- Climate change was a consistent engagement topic across all of the managers.
- Diversity was in the top five engagement themes for LGIM.

# Equity and multi-asset: Exercise of votes

	LGIM 12 month period to 30 June 2022			LCIV (Baillie Gifford) 12 month period to 31 March 2022		LCIV (Ruffer) 12 month period to 31 March 2022
	All World	Emerging Markets	RAFI	Global Alpha	DGF	Absolute return
# eligible votes	66,610	35,160	39,277	1307	1537	565
% votes exercised	99.9	99.9	99.7	96.6	88.1	99.7
% against management	19.86	18.9	19.4	2.1	3.4	5.0
% abstained / withheld	1.3	2.28	1.0	0.6	0.60	0.7
% meetings with at least one vote against management	62.1	51.9	69.9	16.2	18.1	32

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- The Fund has direct exposure to equities via LGIM and LCIV (Baillie Gifford and SSGA) mandates, with additional exposure obtained through multi-asset mandates managed by Baillie Gifford and Ruffer.
- The table above provides a summary of voting over the respective 12 month period (as the fund has not yet been invested in the LCIV PEPPA fund for 12 months, we have not included this fund in the table). We can observe the following from this data:
  - The exercise of voting rights was high across both LGIM and Ruffer eligible mandates. Baillie Gifford exercised less votes than the other managers, on average, particularly in the Diversified Growth Fund.
  - Similar to last year, abstentions/withheld votes were relatively low. Managers continue to exercise voting rights
  - LGIM were the most active manager in terms of voting against management by a considerable margin and compared to last year. This is to be expected given the index-tracking nature of the LGIM mandates and therefore LGIM do not have an option of disinvestment. Conversely, Baillie Gifford and Ruffer actively select stocks and, should on average, have a greater alignment of interests.
  - The index-tracking LGIM funds have a significantly larger stock listing than Baillie Gifford and Ruffer. Hence the LGIM funds are eligible for a larger number of votes.

# Equity and multi-asset: Significant votes

Manager	Main reasons to vote against management	Significant votes
<b>LGIM</b> PRI rating for equity: A+  Page 122	<ol style="list-style-type: none"> <li>1. Director-related</li> <li>2. Non-salary remuneration</li> <li>3. Capitalisation</li> <li>4. Routine</li> <li>5. Reorgs./Mergers</li> </ol>	<ul style="list-style-type: none"> <li>• <b>Apple: Diversity &amp; Inclusion (Report on Civil Rights Audit).</b> LGIM voted in favour of this shareholder resolution, and against management recommendation, which requested Apple to review their practices related to issues such as recruitment, hiring, promotions, discipline, benefits and wages commenting that they support proposals related to diversity and inclusion policies as they consider these issues to be material risk to companies.</li> <li>• <b>Total Energies: Climate Change (Approve the Company's Sustainability and Climate Transition Plan).</b> LGIM voted against this resolution, noting that while they recognised the progress the company has made with respect to its net zero commitment, specifically around the level of investments in low carbon solutions and by strengthening its disclosure, that they remain concerned with the company's planned upstream production growth in the short term, and absence of further details on how such plans are consistent with the 1.5C trajectory.</li> </ul>
<b>Baillie Gifford</b> PRI rating for equity: A+	<ol style="list-style-type: none"> <li>1. Non-Salary Compensation</li> <li>2. Antitakeover related</li> <li>3. Capitalisation</li> <li>4. Director related</li> <li>5. Routine/ Business</li> </ol>	<ul style="list-style-type: none"> <li>• <b>Rio Tinto: Climate Change (Climate Action Plan).</b> Baillie Gifford voted against the management's climate action plan, commenting that they believe Rio Tinto should make more ambitious commitments, including on its scope 3 emissions.</li> </ul>
<b>Ruffer</b> PRI rating for equity: A  (Other asset classes have not received a PRI rating)	<ol style="list-style-type: none"> <li>1. Director-related</li> <li>2. Remuneration policies</li> <li>3. Political Lobbying Disclosure</li> <li>4. Shareholder resolutions on human rights</li> <li>5. Resolutions on climate change</li> </ol>	<ul style="list-style-type: none"> <li>• <b>Alphabet: Climate Change (Report on Climate Lobbying &amp; Report on Physical Risks of Climate Change).</b> Ruffer voted against company management recommendation and in favour of two shareholder resolutions related to climate change. With regards to climate related lobbying, Ruffer commented that the company and its shareholders are likely to benefit from a review of how the company and its trade associations' lobbying positions align with the Paris Agreement, in light of the risks to the company caused by climate change and the company's public position. They also supported increased reporting regarding how Alphabet is assessing and managing climate change risks given the benefit of such enhanced disclosures.</li> </ul>

# Equity and multi-asset: Significant votes

Manager	Main reasons to vote against management	Significant votes
State Street	<ol style="list-style-type: none"><li>1. Non- Salary Compensation</li><li>2. Anti-takeover related</li><li>3. Director Related</li><li>4. Reorgs/ Mergers</li><li>5. Capitalisation</li></ol>	<ul style="list-style-type: none"><li>• <b>Apple: Diversity &amp; Inclusion (Report on Civil Rights Audit)</b> SSGA voted for this shareholder resolution for Apple to report on racial equity/ Civil Rights Audit, noting that diversity promotes better management of ESG opportunities and risks.</li></ul>

# Equity and multi-asset: Significant engagements

Manager	Main engagement themes	Significant engagement
<b>LGIM</b>  <span style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 124</span>	<ol style="list-style-type: none"> <li>1. Climate change</li> <li>2. Remuneration</li> <li>3. LGIM ESG Score</li> <li>4. Company disclosure and transparency</li> <li>5. Diversity</li> </ol>	<p><b>Ethnicity Campaign: Diversity &amp; Inclusion</b>            LGIM launched an ethnicity engagement campaign focussed on engaging with the largest US and UK companies with no ethnic diversity on the board, with a commitment to taking action on a lack of improvement by placing a negative vote at their 2022 AGM. As part of the campaign, they wrote to an initial 79 companies across S&amp;P 500 and FTSE 100 indices to alert them of their expectations. In October 2021, they revisited the boards ethnic representation of the companies in these indices, with the intention of engaging further with those still in breach of their expectation of at least one person of diverse ethnicity on the board. This review resulted in LGIM engaging with 37 companies in total, meaning that their target list halved. The 2022 voting season was the first season LGIM started to place votes on the lack of ethnic diversity in boards following unsuccessful engagement. As part of the escalation strategy, LGIM voted against a director election at <b>Universal Health Services</b> for lack of ethnic diversity. Two of the companies on LGIM's original list, <b>IPG Photonics Corp</b> and <b>Mohawk Industries</b>, met their expectations prior to the AGMs, signs that their engagement efforts have started to show improvements to ethnic diversity on boards.</p>
<b>Baillie Gifford</b>	<ol style="list-style-type: none"> <li>1. Remuneration</li> <li>2. Climate Change</li> <li>3. Strategy/ Purpose</li> <li>4. Sustainability Reporting</li> <li>5. Board effectiveness – independence/ oversight</li> </ol>	<p><b>Lynas Rare Earths: Climate Change</b>            Baillie Gifford engaged with Lynas Rare Earths (Lynas), a miner of neodymium which is a critical input to the powering of electric vehicles, wind turbines and other technologies, on the firm's climate commitments. Through this dialogue, Lynas informed Baillie Gifford that the board were closely involved in the recent operational materiality mapping exercise and that the development of the company's near-term GHG emissions reduction goal into an SBTi-approved net zero commitment (to be disclosed in FY22) was approved by all members of the board, senior leadership, and general managers.</p> <p><b>BBGI: Climate Change</b>            Baillie Gifford meet with BBGI Global infrastructure to understand their portfolio's modelled climate risks. BBGI announced its commitment to reduce carbon emissions in line with Net Zero by 2040 and that they will monitor scope 1 and 2 emissions (and material scope 3 emissions) for the underlying assets, and plan to develop Net Zero alignment plans for each asset and work with end-users to advise on climate action.</p>

# Equity and multi-asset: Significant engagements

Manager	Main engagement themes	Significant engagement
Ruffer	<ol style="list-style-type: none"> <li>1. Climate change</li> <li>2. Business Practices</li> <li>3. Strategy and Capital Allocation</li> <li>4. Corporate Governance in Japan</li> <li>5. Data Security</li> </ol>	<p><b>Shell: Climate Change (Energy Transition)</b>            Ruffer has engaged in active dialogue with Shell management on the company's strategy, capital programme, and shareholder returns programme. During these meetings, Ruffer informed Shell that they are not satisfied with the coherence of their energy transition spending plan and will continue to monitor its progress. Ruffer stated that while they have long supported Shell's differentiated approach to the energy transition by targeting electric vehicle charging, the company has recently announced a move into the commoditised renewable power space and Ruffer is concerned that the company may face challenges in finding genuine differentiation in this area.</p>
State Street	<ol style="list-style-type: none"> <li>1. Human Capital</li> <li>2. Racial Equity</li> <li>3. COVID-19</li> <li>4. Climate –related reporting</li> <li>5. Compensation</li> </ol>	<p><b>Regions Financials: Diversity &amp; Inclusion</b>            SSGA engaged with Regions Financial Corporation to discuss racial equity and workplace diversity disclosure. In SSGA's proxy voting policy, if a company in the S&amp;P 500 does not disclose EEO-1 data, mandatory annual demographic workforce data in the US, SSGA will vote against the Chair of the Compensation Committee. As such, SSGA sent a letter to the company's board informing them of the need for disclosure. Post this letter and further engagement with Regions Financials, the company informed SSGA that they have published EEO-1 data. SSGA believed further improvement could be made on this initial disclosure and continued to engage with the company to produce a better data set that articulates the diversity of their workforce.</p>

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# Real assets: Stewardship and engagement

Manager	Main engagement themes
<p><b>JP Morgan</b></p> <p>PRI rating for infrastructure: A (Old rating assessment)</p>	<ul style="list-style-type: none"> <li>• JP Morgan view infrastructure investments as providing diversification while improving sustainability. The core theme's underlying their outlook for infrastructure include <b>strong governance, carbon disclosure</b> and <b>improving sustainability</b>.</li> <li>• They view <b>strong corporate governance</b>, including talented, aligned management teams, as key to reducing carbon footprints.</li> <li>• They also note that preparing for <b>climate risks</b> to become part of financial statements is imperative and best practice will be measuring and auditing portfolio companies' carbon footprint, in accordance with the most widely used international accounting tool, the Greenhouse Gas Protocol.</li> <li>• Lastly, a core focus will be on <b>improving sustainability</b> with social impact a priority across the portfolio companies. This will be achieved through initiatives such as promoting health, safety, diversity, equity and inclusion.</li> </ul>
<p><b>UBS</b></p> <p>PRI rating for property: A+ (Old rating assessment)</p>	<ul style="list-style-type: none"> <li>• UBS believe there is a direct link between responsible property investing and long-term returns and that 'greener' buildings (in terms of both environmental and social impacts) perform better than less 'green' buildings across indexes ranging from void periods, tenant retention and rental levels.</li> <li>• Their Real Estate and Private Markets' (REPM) responsible investment strategy has been developed by the REPM Sustainability Workgroup and comprises professionals from multiple countries and disciplines, ranging from engineering and construction, through to investment and business management and it sets strategies and objectives at a global level to ensure that sustainability objectives are appropriately integrated into REPM's investment strategies and property operations. The responsible investment strategy is implemented by all operational functions during the entire ownership cycle of an underlying project.</li> <li>• REPM's sustainability efforts continued to be recognised by the industry in 2022, with strong results in the 2022 Global Real Estate Sustainability Benchmark (GRESB) Real Estate and Infrastructure Assessments, including for UBS Triton.</li> </ul>
<p><b>CBRE</b></p> <p>PRI rating for property: A (Old rating assessment)</p>	<ul style="list-style-type: none"> <li>• With real assets representing roughly half of today's global carbon emissions, CBRE believe that active engagement is essential to supporting environmental stewardship.</li> <li>• Their engagement priorities around climate change centre around carbon emissions reductions, energy efficiency and climate resilience.</li> <li>• In particular a core focus has been engaging with companies to encourage disclosure of GHG emissions reduction targets and to understand their strategies for achieving these targets. Further engagement topics have included renewable investments, green buildings, community &amp; diversity and governance disclosures.</li> </ul>
<p><b>Stafford</b></p> <p>PRI rating for infrastructure: A (Old rating assessment)</p>	<ul style="list-style-type: none"> <li>• Stafford has continued to focus their ESG engagements with infrastructure managers on climate change risks, with a focus over the year on climate disclosures and decarbonisation plans of these managers. To better understand, track, improve and manage the exposure of their infrastructure products to climate change risk, they completed an Emissions and Adverse Impacts Survey (survey) for the second time. Managers were asked to provide data on their fund portfolios' CO2 Scope 1, 2 and 3 emissions, carbon footprint/intensity, exposure to fossil fuels sectors and other potentially adverse impacts. They saw progress in the response rates of the survey, with a 60% response rate compared to the inaugural survey response rate of 36%. The survey found that a significant percentage of managers and industry participants have not yet developed their GHG emissions reporting capabilities and Stafford will continue to engage with managers on this.</li> </ul>

# Fixed income: Stewardship and engagement

Manager	Main engagement themes
<p><b>Royal London (RLAM)</b></p> <p>PRI rating for fixed income corporate financial / non-financial: A/A+ (Old rating assessment)</p>	<ul style="list-style-type: none"> <li>A core engagement project for RLAM over the year was net zero, having defined three key things they want to see companies do, including:               <ol style="list-style-type: none"> <li>Set targets aligned with the 1.5C ambition.</li> <li>Bring others to net zero</li> <li>Demonstrate action now</li> </ol> </li> <li>In fixed income specifically, they undertook a project engaging with rolling stock owners to understand the potential impact of decarbonisation targets on the UK rail sector. This allowed RPLAM to engage with portfolio companies on their preparedness and re-evaluate the lending case. Integrating this bespoke ESG analysis into their credit analysis forms part of their direct engagement with credit issuers and the project also provided a critical framework for future engagement.</li> </ul>
<p><b>Churchill</b></p> <p>PRI rating for corporate non-financial: A (Old rating assessment)</p>	<ul style="list-style-type: none"> <li>As part of Churchill's approach to stewardship in the investment process, they conduct ESG Monitoring and Engagement. The investment teams monitor material ESG risks throughout the life of an investment and conduct frequent reviews with management teams and investment partners to address any issues or incidents that may arise</li> <li>Churchill's engagement activities include dialogue, targeted initiatives, market initiatives and policy influence. Dialogue involves engaging in direct and constructive communication with CEO's, senior management, boards of directors and appropriate stakeholders of investee companies to encourage further ESG disclosure and adoption of best practices. Targeted initiatives aim to drive measurable outcomes with company, industry, thematic and country-specific initiatives. Market initiatives involve collaboration with peers, interdisciplinary experts and industry stakeholders to create best practices and drive more effective outcomes and lastly policy influence activities include actively helping to shape legislation, public policy and global standards related to RI best practices.</li> </ul>
<p><b>Permira</b></p> <p>PRI rating for corporate non-financial: A (Old rating assessment)</p>	<ul style="list-style-type: none"> <li>During the year a core focus for Permira was enhanced disclosure and visibility of climate and other environmental risks. In order to identify, monitor and build resilience to climate change among portfolio companies, they refined their ESG approach and annual request for information to reflect current trends and regulatory developments. Permira noted that they saw an improvement in the reporting of greenhouse gas (GHG) emissions compared to 2020, particularly for Scope 1 emissions.</li> <li>Having piloted an initial request for ESG information from PCS4 portfolio companies in 2020/21, in 2021/22 they extended the request across PCS2, PCS3 and PCS4 portfolios and were pleased to see a 98% disclosure rate. The request included 19 key performance indicators (KPIs) – more than double the number requested in 2020/21.</li> </ul>

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# Summary and Recommendations

- The Fund's managers have exercised voting policies and undertaken engagement activity in line with expectations and we have no significant concern with the extent to which stewardship activity has been exercised over the last year.
- Since the previous report, a further two managers, namely Russell Investments and JP Morgan, became signatories to the 2020 UK Stewardship Code. There are now only three managers which are not signatories to the Code. The Code has been designed to be applicable to managers across all asset classes and therefore we would expect all of the Fund's managers to have an aspiration to eventually become a signatory. We suggest revisiting this point in 12 months and exploring in greater detail the rationale of any managers which have not yet attempted to become a signatory.
- In line with the Committee's stewardship policy, the practices of the Fund's managers should continue to be monitored. We recommend that at future Committee meetings where LGIM or LCIV present that some focus be given to voting practices. We propose to identify appropriate case studies to facilitate discussion.
- LCIV have now developed their own Voting Policy. We suggest the Committee review LCIV's voting policy to determine if it aligns with the Fund's responsible investment beliefs and determine whether they would like to adopt the policy across mandates. Adopting a single, coherent policy will allow consistency in voting across the Fund's mandates.
- Committee is scheduled to develop their climate risk plan over 2023. We suggest revisiting stewardship activity as part of this session and consider how Committee could develop its approach to demanding accountability and scrutiny and integrate this as part of the climate risk plan.

# Risk warning



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

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## PENSIONS COMMITTEE

21 MARCH 2023

**Subject Heading:**

**ACTUARIAL VALUATION REPORT as  
at 31 March 2022**

**CLT Lead:**

**Dave McNamara**

**Report Author and contact details:**

*Debbie Ford*  
*Pension Fund Manager (Finance)*  
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**Policy context:**

**To meet Regulation 62 of the Local  
Government Pension Scheme  
Regulations 2013**

**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 2022 Actuarial Valuation Report (Appendix A) has been prepared by the Fund's Actuary in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

The report sets out an actuarial valuation of the assets and liabilities of the pension fund as at 31 March 2022.

The report also sets out the minimum contributions to be paid by each employer from 1 April 2023 to 31 March 2026 as determined by the Fund's Actuary.

**RECOMMENDATIONS**

That the committee:

1. Note the 2022 Actuarial Valuation Report (**Appendix A**)

**REPORT DETAIL**

**1. Background**

- 1.1 The Local Government Pension Schemes Regulations 2013, paragraph 62 (1) states that an administering authority must obtain:

*(a) an actuarial valuation of the assets and liabilities of each of its pensions funds as at 31st March 2016 and on 31st March XXXX in every third year afterwards;*

*(b) a report by an actuary in respect of the valuation; and*

*(c) a rates and adjustments certificate prepared by an actuary.*

*(2) Each of those documents must be obtained before the first anniversary of the date ("the valuation date") as at which the valuation is made or such later date as the Secretary of State may agree.*

*(3) A report under paragraph (1)(b) must contain a statement of the demographic assumptions used in making the valuation; and the statement must show how the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.*

*(4) A rates and adjustments certificate is a certificate specifying —*

*(a) the primary rate of the employer's contribution; and*

*(b) the secondary rate of the employer's contribution,*

*for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.*

*(5) The primary rate of an employer's contribution is the amount in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members.*

*(6) The actuary must have regard to —*

*(a) the existing and prospective liabilities arising from circumstances common to all those bodies;*

*(b) the desirability of maintaining as nearly constant a common rate as possible;*

*(c) the current version of the administering authority's funding strategy mentioned in regulation 58 (funding strategy statements); and*

*(d) the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.*

*(7) The secondary rate of an employer's contributions is any percentage or amount by which, in the actuary's opinion, contributions at the primary rate should, in the case of a Scheme employer, be increased or reduced by reason of any circumstances peculiar to that employer.*

*(8) A rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects —*

*(a) the number of members who will become entitled to payment of pensions under the provisions of the Scheme; and*

*(b) the amount of the liabilities arising in respect of such members, during the period covered by the certificate.*

*(9) The administering authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as the actuary requests.*

1.2 Appendix A is a summary of the 2022 valuation. As mentioned above under Regulation 62 (2) the Final version of the 2022 Actuarial Valuation Report must be produced before the first anniversary of the valuation date, this being 31 March 2023.

1.3 Whilst Appendix A sets out the final results for the Fund it will be classified as draft until the Government Actuary Department sets out what should be included within the Section 13 part of the report (page 39 refers), which is currently blank.

1.4 Key points to note from the valuation are the improved funding position, which is shown in Table 1 below and the Employer contribution rates.

**a) Table 1 – Funding position**

	<b>31 March 2019</b>	<b>31 March 2022</b>
	<b>£m</b>	<b>£m</b>
Total Liabilities	1,054	1,149
Total Assets	733	920
Surplus/(Deficit)	(320)	(229)
<b>Funding Level</b>	<b>70%</b>	<b>80%</b>

Improvement to the funding position is mainly attributable to better than expected investment returns.

**b) Employer contribution rates** - The primary objective of the Fund is to set employer contribution rates that will adequately cover the cost of benefits, which are expected to be paid in the future and any costs related to benefits already earned. A secondary objective is to ensure the rates are as stable as possible. The minimum contributions to be paid by each employer from 1 April 2023 to 31 March 2026 are shown in the Rates and Adjustment certificate on pages 32 – 36 within Appendix A.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

The triennial actuarial valuation is an important part of the Fund’s risk management framework. Its main purpose is to ensure that the Fund continues to have a **contribution plan** and an **Investment Strategy** that will achieve the **objectives set out in the Funding Strategy Statement (FSS)**.

The **contribution plan** is formed having assessed the amount of money needed to meet the benefits owed to its members as they fall due for payment and setting employer contribution rates to fund these payments.

The Draft **FSS** was approved at the Pensions committee on the 11 November 2022. The consultation period closed on the 31 December 2022 and no responses were received. The final version of the FSS will be published after this meeting to align publication of the 2022 Valuation and FSS.

The Fund will review the **Investment Strategy Statement** to improve the likelihood of meeting assumed investment returns.

The valuation results depend on actuarial assumptions that are made about the future which cannot be predicted with certainty and it is unlikely that future experience will match the assumptions used.

Sensitivity and risk analysis are included within the report on pages 16-18 of the report (Appendix A).

To date the costs of the undertaking the valuation and associated additional tasks e.g Asset Liability Modelling, ill health provisions and McCloud provisions is £0.058m and will be met from the Pension Fund.

**Legal implications and risks:**

The Regulatory requirements are included within the body of the report. The Authority appears to have complied with these and therefore there are no apparent legal implications in noting the content of the Report.

**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

# London Borough of Havering Pension Fund - Draft

Report on the actuarial valuation at 31 March 2022

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**SIGNATURE**

Steven Law FFA

**SIGNATURE**

Steven Scott FFA

**15 February 2023**

**For and on behalf of Hymans Robertson LLP**

Hymans Robertson LLP is authorised and regulated by the Financial Conduct Authority

Use the menu bar above to navigate to each section.

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# Executive Summary

We have been commissioned by London Borough of Havering (the Administering Authority) to carry out a valuation of the London Borough of Havering Pension Fund (the Fund) as at 31 March 2022. This fulfils Regulation 62 of the Local Government Pension Scheme Regulations 2013. This report is a summary of the valuation.

## Contribution rates

The contribution rates for individual employers set at this valuation can be found in the [Rates & Adjustments certificate](#). Table 1 shows the combined individual employer rates set at this valuation and the last valuation (31 March 2019).

Table 1: Whole fund contribution rates compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
<b>Primary Rate</b>		21.1% of pay		17.9% of pay
<b>Secondary Rate</b>	2023/2024	£6,440,000	2020/2021	£12,127,000
	2024/2025	£6,275,000	2021/2022	£12,784,000
	2025/2026	£5,103,000	2022/2023	£12,753,000

The primary rate includes an allowance of 0.8% of pensionable pay for the Fund's expenses (1.0% at the 2019 valuation).

Employees pay a contribution to the Fund in addition to these rates. These rates are set by the LGPS Regulations. The average employee contribution rate at 31 March 2022 is 6.5% of pay (6.4% at 31 March 2019).

## Funding position

As at 31 March 2022, the funding position has improved from the last valuation. The required investment return to be 100% funded is now 4.8% pa (5.4% pa at 2019). The likelihood of the Fund's investment strategy achieving the required return is 66% (54% at 2019). Table 2 shows the single reported funding position at the current and previous valuation.

Table 2: Single reported funding position at 31 March 2022 compared with 31 March 2019

Valuation Date	31 March 2022	31 March 2019
<b>Past Service Liabilities</b>	<b>(£m)</b>	<b>(£m)</b>
Employees	397	318
Deferred Pensioners	225	220
Pensioners	527	516
<b>Total Liabilities</b>	<b>1,149</b>	<b>1,054</b>
<b>Assets</b>	<b>920</b>	<b>733</b>
<b>Surplus/(Deficit)</b>	<b>(229)</b>	<b>(320)</b>
<b>Funding Level</b>	<b>80%</b>	<b>70%</b>

# Approach to valuation

# Valuation Purpose

The triennial actuarial valuation is an important part of the Fund's risk management framework. Its main purpose is to ensure the Fund continues to have a contribution plan and investment strategy that will achieve the objectives set out in the Funding Strategy Statement.

We have been commissioned by London Borough of Havering (the Administering Authority) to carry out a valuation of the London Borough of Havering Pension Fund (the Fund) as at 31 March 2022. This fulfils Regulation 62 of the Local Government Pension Scheme Regulations 2013. This report marks the culmination of the valuation process and contains its two key outcomes:

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1

2

Employer contribution rates for the period 1 April 2023 to 31 March 2026.

The funding level of the Fund at 31 March 2022.

Further information on the valuation process, methodology and strategy is set out in the publicly available Funding Strategy Statement, Investment Strategy Statement and published papers and minutes of the Fund's Pensions Committee. Additional material is also contained in [Hymans Robertson's LGPS 2022 valuation toolkit](https://www.hymans-robertson.com/media/uploads/LGPS_2022_Valuation_Toolkit.pdf)<sup>1</sup>.

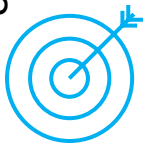
# Setting employer contribution rates

Employer contributions need to be set at a level which ensures the Fund has a reasonable likelihood of having enough money to pay members' benefits. Identifying the amount of benefits that may be paid is complex as those earned today might only start being paid in 50 years' time. Over that time period, there is significant uncertainty over factors which affect the cost of benefits, eg inflation, investment returns. These uncertainties are allowed for by taking a risk-based approach to setting employer contribution rates. This approach is built around three key funding decisions set by the Fund and asset-liability modelling.

## Key funding decisions

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For each employer, the Fund determines the most appropriate choice for the following three funding decisions. Further detail is set out in the Funding Strategy Statement.



### What is the funding target for each employer?

Will the employer remain in the Fund for the long-term or exit at some point and how



### What is the funding time horizon?

How long will the employer participate in the Fund



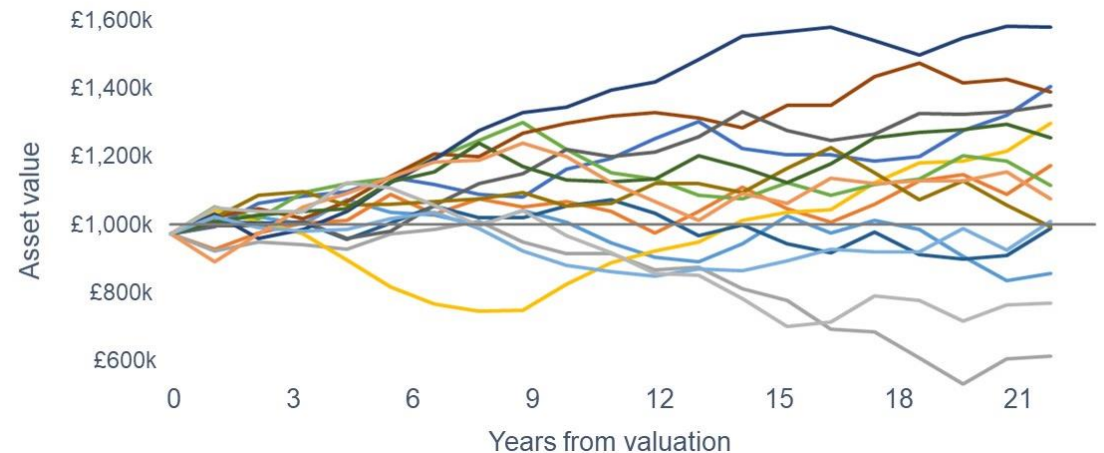
### What is the required likelihood?

How much funding risk can the employer's covenant support

## Asset-liability modelling

Asset-liability modelling is used to project each employer's assets and benefit payments into the future using 5,000 different economic scenarios. The economic scenarios are generated using Hymans Robertson's Economic Scenario Service (ESS) (further information in [Appendix 2](#)).

Picture 1: sample progression of employer asset values



# Measuring the funding level

The past service funding level is measured at the valuation. Whilst it is limited in providing insight into a funding plan, it is a useful high-level summary statistic. To measure the funding level, a market-related approach is taken to calculating both the assets and the liabilities (so they are consistent with each other).

- The market value of the Fund's assets at the valuation date have been used.
- The liabilities have been valued using assumptions based on market indicators at the valuation date (these assumptions are detailed in [Appendix 2](#)).

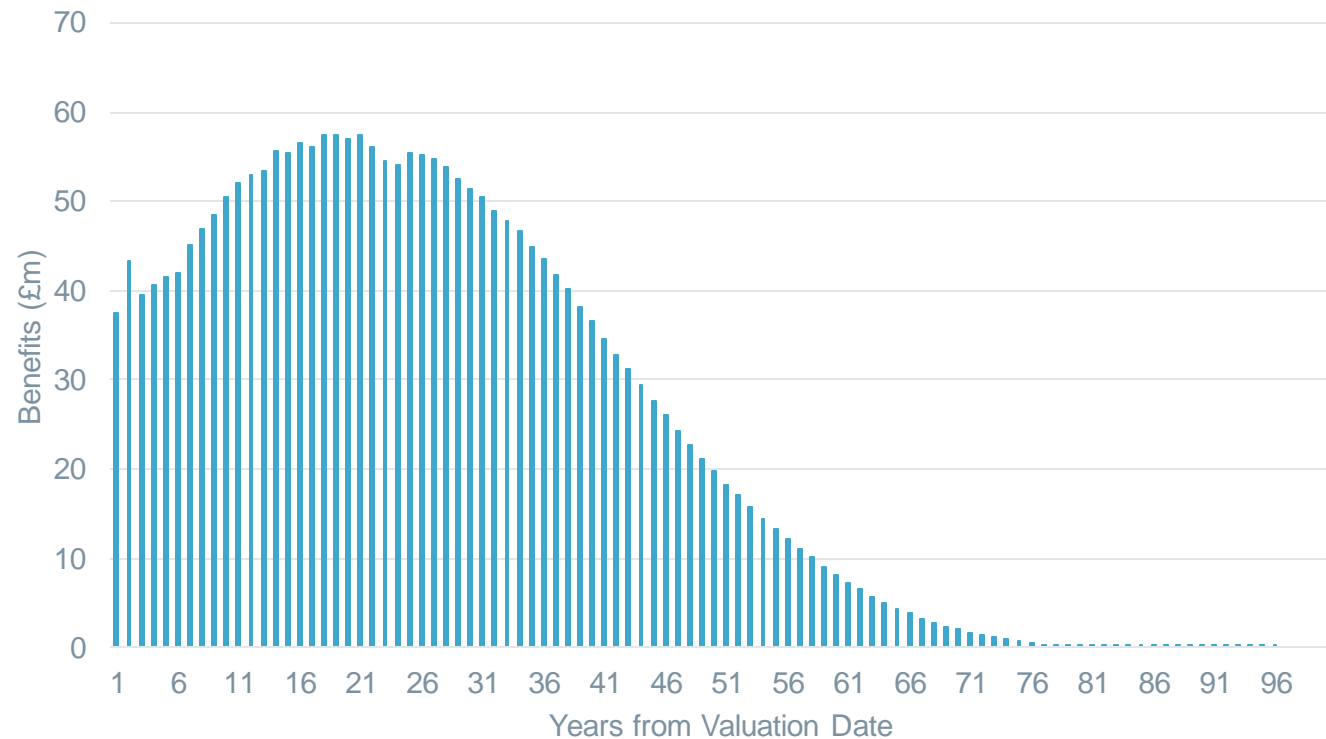
## Further detail on the liabilities

The liabilities are the value of all future payments to members based on all benefits earned up to the valuation date, expressed in today's money.

Chart 1 shows the projected payments for all members in the Fund at the valuation date. The projections are based on the membership data provided for the valuation ([Appendix 1](#)), the assumptions ([Appendix 2](#)) and our understanding of the LGPS benefit structure as at 31 March 2022 (details at [www.lgpsregs.org](http://www.lgpsregs.org)).

To express the future payments in today's money, the projections are discounted with an assumed future investment return on the Fund's assets (the discount rate).

Chart 1: projected benefit payments for all service earned up to 31 March 2022



# Valuation results

# Employer contribution rates

The primary objective of the Fund is to set employer contribution rates that will adequately cover the cost of benefits which will accrue in the future and any costs related to benefits already earned. A secondary objective is to ensure the rates are as stable as possible. The risk-based approach detailed earlier is used to meet both these objectives.

The employer contribution rate is made up of two components.

1. A primary rate: the level sufficient to cover all new benefits.
2. A secondary rate: the costs associated with sufficiently funding benefits accrued up to the valuation date.

Each employer has a contribution rate which is appropriate to their circumstances and these can be found in the [Rates & Adjustments Certificate](#). Broadly speaking:

- Primary rates have increased since the last valuation due to rising inflation.
- Secondary rates have decreased due to strong investment performance since the previous valuation.

However all employers will be different and the contribution rate will reflect the membership and experiences of each employer.

Table 3 shows the total of all employer contribution rates to be paid into the Fund over the period 1 April 2023 to 31 March 2026.

Table 3: Whole-fund contribution rate, compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
<b>Primary Rate</b>	21.1% of pay		17.9% of pay	
<b>Secondary Rate</b>	2023/2024	£6,440,000	2020/2021	£12,127,000
	2024/2025	£6,275,000	2021/2022	£12,784,000
	2025/2026	£5,103,000	2022/2023	£12,753,000

The primary rate includes an allowance of 0.8% of pensionable pay for the Fund's expenses (1.0% at the 2019 valuation).

Employees pay a contribution to the Fund in addition to these rates. These rates are set by the LGPS Regulations. The average employee contribution rate at 31 March 2022 is 6.5% of pay (6.4% at 31 March 2019).

# Funding level

The funding level is the ratio of assets to liabilities. The market value of the assets at the valuation date are known. The value of the liabilities is uncertain given that the level of future investment returns are unknown.

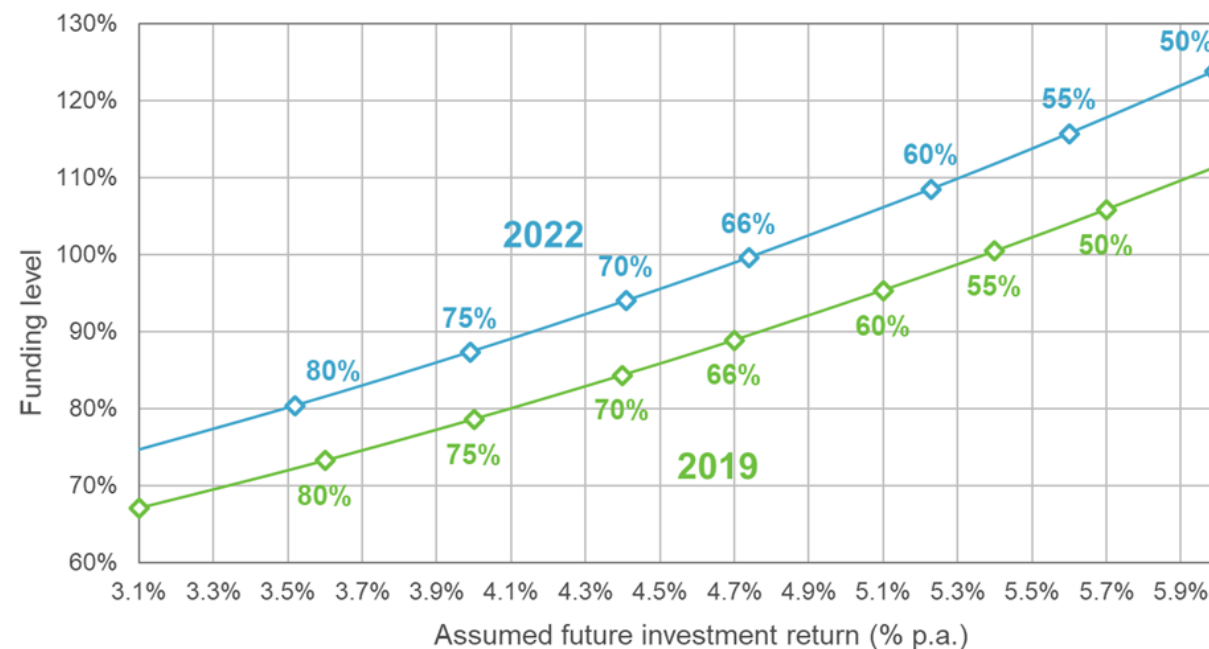
Therefore, the liabilities and funding level have been calculated across a range of different investment returns (the discount rate).

To help better understand funding risk, the likelihood of the Fund's investment strategy (detailed in [Appendix 1](#)) achieving certain levels of return has also been calculated.

Chart 2 shows how the funding level varies with future investment return assumptions at 31 March 2022 (blue line). The green line shows the same analysis at 31 March 2019.

- The funding level is 100% if future investment returns are c.4.8% pa.
- The likelihood of the Fund's assets yielding at least this return is around 66%.
- The comparator at 2019 was a return of 5.4% pa which had a likelihood of 54%.
- The funding position at 2022 is stronger than 2019.
- There is a 50% likelihood of an investment return of 6.0% pa. So the best-estimate funding level is 124% at 31 March 2022 (103% at 2019).

Chart 2: funding level across a range of future investment returns



Figures on each line show the likelihood of the Fund's assets exceeding that level of return over the next 20 years

# Single funding level as at 31 March 2022

Whilst the chart on the previous page provides a better understanding of the past service funding position, there is still a requirement to report a single funding level at 31 March 2022.

To report a single funding level and funding surplus/deficit for the 2022 valuation, a discount rate of 3.5% pa has been used. There is an 80% likelihood associated with a future investment return of 3.5% pa.

Table 4 details the liabilities, split by member status and the market value of assets at the valuation date. The results at the 2019 formal valuation are shown for comparison.

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position of the Fund as at 31 March 2022, however there are limitations:

- The liabilities are calculated using a single set of assumptions about the future and so are very sensitive to the choice of assumptions.
- The market value of assets held by the Fund will change on a daily basis.

The future progression of the funding position is uncertain. If the financial and demographic assumptions made at this valuation actually occur, employers pay contributions in line with the R&A certificate and there are no other changes in the financial or demographic environment, we project that the funding level at the next valuation (31 March 2025) will be approximately 85%.

Table 4: single reported funding level

Valuation Date	31 March 2022	31 March 2019
<b>Past Service Liabilities</b>	<b>(£m)</b>	<b>(£m)</b>
Employees	397	318
Deferred Pensioners	225	220
Pensioners	527	516
<b>Total Liabilities</b>	<b>1,149</b>	<b>1,054</b>
<b>Assets</b>	<b>920</b>	<b>733</b>
<b>Surplus/(Deficit)</b>	<b>(229)</b>	<b>(320)</b>
<b>Funding Level</b>	<b>80%</b>	<b>70%</b>

**Important:** the reported funding level does not directly drive the contribution rates for employers. The contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and also reflect each employer's funding profile and covenant.

# Changes since the last valuation

## Events between 2019 and 2022

The most significant external event to occur since the last valuation has been the Covid-19 pandemic. The experience analysis below shows that there has sadly been a higher than expected number of deaths over the period. However, the impact on the funding position has been small. This is likely due to the age profile of the excess deaths and the level of pension.

Other significant factors occurring which affect the funding strategy of the Fund have been the better than expected investment returns. This has had a material positive impact on the funding position and employers' secondary contribution rates.

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### Financial

Table 5: analysis of financial experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
3 year period	10.3%	28.6%	18.3%	+£128m
Annual	3.3% pa	8.7% pa	5.4% pa	

### Membership

Table 6: analysis of membership experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
Early leavers	1,763	1,970	207	+£0m
Ill-health retirements	34	21	-13	+£1m
Salary increases	3.6% pa	4.8% pa	1.2% pa	-£7m
Benefit increases	2.3% pa	1.8% pa	-0.6% pa	+£15m
Pension ceasing	£2.9m	£3.0m	£0.1m	+£1m

# Changes since the last valuation

## Future outlook

Expectations about the future, which inform the assumptions used to value the liabilities, have changed since the last valuation. The most significant changes are:

- Future inflation: this is expected to be on average higher than at 2019 due to the current level of high inflation.
- Investment returns: due to change in the Fund's investment strategy, financial markets and a slight relaxation of likelihood of the Fund's investment strategy returning the discount rate, future investment returns are now expected to be higher than at the last valuation.

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Table 7: summary of change in future outlook

Factor	What does it affect?	What's changed?	Impact on liabilities
Future investment returns	The rate at which future benefit payments are discounted back, ie the discount rate assumption	Future investment returns slightly higher at 2022 than at 2019. The required return is now 3.5% pa vs. 3.3% pa at 2019.	Decrease of £42m
Inflation	The rate at which pensions in payment and deferment and CARE pots increase	Significant increase in short-term future inflation expectations.	Increase of £79m
Salary increases	The rate at which future salaries increase. This affects benefits that are still linked to final salary, ie accrued before 1 April 2014	No material change since last valuation given competing factors e.g. tighter budgetary conditions vs. strong job market and pressure from National Living Wage increases.	No impact
Current life expectancy	How long we expect people to live for based on today's current observed mortality rates.	Slight reduction in life expectancy based on current observed data (not allowing for Covid-related excess deaths)	Decrease of £6m
Future improvements in life expectancy	How we expect life expectancies to change (increase) in the future.	Uncertainty about effectiveness of mitigations against life expectancy increases in the LGPS i.e. State Pension Age increases and Cost Cap. Need to better reflect wider pension and insurance industry long-term expectations.	Increase of £7m

# Reconciling the overall change in funding position

The tables below provide insight into the funding position change between 31 March 2019 and 31 March 2022. Firstly, the changes we expect to happen (Table 8), which relate mostly to items on the asset side. Then the impact of actual experience (Table 9), which mainly affects the liabilities.

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## Expected development

Table 8: expected development of funding position between 2019 and 2022 valuations

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
<b>Last valuation at 31 March 2019</b>	<b>733</b>	<b>1,054</b>	<b>(320)</b>
<b>Cashflows</b>			
Employer contributions paid in	119	0	119
Employee contributions paid in	23	0	23
Benefits paid out	(115)	(115)	0
Net transfers into / out of the Fund	(40)	(49)	9
Other cashflows (e.g. Fund expenses)	(1)	0	1
<b>Expected changes</b>			
Expected investment returns	72	0	72
Interest on benefits already accrued	0	109	(109)
Accrual of new benefits	0	124	(124)
<b>Expected position at 31 March 2022</b>	<b>791</b>	<b>1,123</b>	<b>(332)</b>

## Impact of actual events

Table 9: impact of actual events on the funding position at 31 March 2022

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
<b>Expected position at 31 March 2022</b>	<b>791</b>	<b>1,123</b>	<b>(332)</b>
<b>Events between 2019 and 2022</b>			
Salary increases greater than expected	0	7	(7)
Benefit increases greater than expected	0	(15)	15
Early retirement strain (and contributions)	0	1	(1)
Ill health retirement strain	0	(1)	1
Early leavers less than expected	0	0	0
Commutation less than expected	0	2	(2)
McCloud remedy	0	2	(2)
Other membership experience	0	(12)	12
Higher than expected investment returns	128	0	128
<b>Changes in future expectations</b>			
Investment returns	0	(42)	42
Inflation	0	79	(79)
Salary increases	0	0	0
Longevity	0	2	(2)
Other demographic assumptions	0	3	(3)
<b>Actual position at 31 March 2022</b>	<b>920</b>	<b>1,149</b>	<b>(229)</b>

Numbers may not sum due to rounding

# Sensitivity & risk analysis

# Sensitivity and risk analysis: assumptions

There is risk and uncertainty inherent with funding benefit payments that will be paid out many years in the future. The Fund is aware of these and has in place a risk register which is regularly reviewed. Additionally, as part of the valuation, the Fund reviews sources of risk that may impact its funding position and the contribution rates payable by employers.

This section discusses some of the most significant sources of funding risk assumptions, regulatory, administration and governance and climate change). Further information of the Fund's approach to funding risk management, including monitoring, mitigation and management, is set out in the Funding Strategy Statement.

## Assumptions

The valuation results depend on the actuarial assumptions made about the future. By their nature, these assumptions are uncertain which means its important to understand their sensitivity and risk levels.

### Contribution rates

The risk-based approach to setting employer contribution rates mitigates the limitation of relying on one set of assumptions. Therefore, there is no need to carry out additional analysis of the sensitivity of contribution rates to changes in financial assumptions. The contribution rates are sensitive to changes in demographic assumptions. The results in this section in relation to the funding position can be broadly applied to the contribution rates.

### Funding level

#### Financial assumptions

On page 10, we have already set out how the results vary with the assumed future investment return. The table below considers inflation.

Table 10: sensitivity of funding position to inflation assumption

CPI Assumption	Surplus/ (Deficit)	Funding Level
% pa	(£m)	%
2.5%	(193)	83%
2.7%	(229)	80%
2.9%	(266)	78%

#### Demographic assumptions

The main area of demographic risk is if people live longer than expected. The table below shows the impact of longer term longevity rates improving at a faster rate (1.75% pa vs 1.5% pa used in the results)

Table 11: sensitivity of funding position to longevity assumption

Long term rate of improvement	Surplus/ (Deficit)	Funding Level
% pa	(£m)	%
1.5%	(229)	80%
1.75%	(239)	79%

# Sensitivity and risk analysis: other risks & climate change

## Regulatory, Administration and Governance risks

Potential risks in this area include change in central government legislation which changes the future cost of the LGPS and failures in administration processes leading to incorrect data and inaccuracies in actuarial calculations. At this valuation, specific risks include:

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- **McCloud:** the remedy to resolve the McCloud case is yet to be formalised in regulations. However, an allowance has been included for this expected benefit change at the 2022 valuation as directed by the Department of Levelling Up, Housing and Communities [in their letter dated March 2022](#)<sup>1</sup>.
- **Goodwin:** the remedy to this issue is still uncertain, it is difficult to identify who it would apply to and its impact is estimated to be very small for a typical LGPS fund (0.1-0.2% of liabilities). Therefore, no allowance has been made for this case at the 2022 valuation.
- **Cost Cap:** a legal challenge is ongoing in relation to the 2016 cost cap valuation and no information is known about the outcome of the 2020 cost cap valuation. At this valuation, no allowance has been made for any changes to the benefit structure that may occur as a result of a cost cap valuation.
- **GMP indexation:** it is assumed that all increases on GMPs for members reaching State Pension Age after 6 April 2016 will be paid for by LGPS employers. This is the same approach that was taken for the 2019 valuation.

## Climate change

### Background

Climate change is a major source of uncertainty which could affect future investment returns, inflation and life expectancies. Therefore, the Fund has explicitly explored the resilience of its funding and investment strategy to future potential climate change outcomes.

It is impossible to confidently quantify the effect of climate risk given the significant uncertainty over the impact of different possible climate outcomes. Instead, three different climate change scenarios have been considered as a stress-test (instead of trying to predict how climate change affects the funding level in the future).

All the scenarios assume that there will be a period of disruption linked either to the response to climate risk (transition risks) or the effect of it (physical risks). This disruption will lead to high volatility in financial markets, and the later the disruption, the more pronounced it will be.

Further detail on the scenarios is shown on the next page and in our guide 10 of [Hymans Robertson's LGPS 2022 valuation toolkit](#)<sup>2</sup>

# Sensitivity and risk analysis: climate change & post valuation events

## Climate change

### Outcome of analysis

The Fund has set its funding and investment strategy using asset-liability modelling and considering two main risk metrics:

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Likelihood of success – the chance of being fully funded in 20 years' time

Downside risk – the average worst 5% of funding levels in 20 years' time

When exploring the potential impact of climate change, the Fund has compared how these risk metrics change under each climate change scenario (against the 'Core' model used when setting the funding and investment strategy). The stress test results for the Fund are shown in Table 12 below.

Table 12: sensitivity of funding position to longevity assumption

Scenario	Likelihood of success	Downside risk
Core	67%	43%
Green Revolution	68%	44%
Delayed Transition	64%	41%
Head in the Sand	61%	41%

The results are worse in the climate scenarios. This is to be expected given that they are purposefully stress-tests and all the scenarios are bad outcomes. Whilst the risk metrics are weaker, they are not materially so and not enough to suggest that the funding and investment strategy are unduly exposed to climate change risk. The Fund will continue to monitor this risk as more information emerges and climate change modelling techniques evolve.

## Post valuation events

Since 31 March 2022, there has been significant volatility in the financial markets, short-term inflation expectations and rises in interest rates by central banks. These events affect the value of the Fund's assets and liabilities.

As an open scheme, with a strong covenant, the Fund takes a long-term view when considering the funding impact of such events. For employers who have a very short time horizon, recent volatility may be more immediately impactful, and the Fund has engaged with these employers as appropriate.

No explicit allowance has been made for this volatility in the valuation results or contribution rates detailed in the Rates & Adjustments Certificate. The Fund will continue to monitor changes in the financial and demographic environment as part of its ongoing risk management approach.

# Final comments

# Final comments

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

- The Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated
- The Investment Strategy Statement, which sets out the investment strategy for the Fund
- The general governance of the Fund, such as meetings of the Pensions Committee and Local Pensions Board, decisions delegated to officers, the Fund's business plan, etc
- The Fund's risk register

## Intervaluation employer events

### New employers joining the Fund

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

### Cessations and bulk transfers

Any employer who ceases to participate in the Fund should be referred to the Fund Actuary in accordance with Regulation 64 of the LGPS regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund (in accordance with Regulation 103 of the LGPS regulations)
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement (in accordance with Regulation 98 of the LGPS regulations)

should be referred to the Fund Actuary to consider the impact on the Fund.

### Valuation frequency

Under the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2025 where contribution rates payable from 1 April 2026 will be set.

# Appendices

## APPENDIX 1

## Data

## Membership data

A summary of the membership data provided by the Fund for the 2022 valuation is set out in Table 13. The corresponding membership data from the previous valuation is also shown for reference.

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The results of the valuation are dependent on the quality of the data used. We have carried out a series of validation checks on the data supplied to us by the Administering Authority to ensure that it is fit for purpose.

## Asset data

To check the membership data and derive employer asset values, we have used asset and accounting data and employer level cashflow data provided by the Fund.

Table 13: Whole fund membership data as at 31 March 2022 and 31 March 2019

Whole Fund Membership Data	This Valuation 31 March 2022	Last Valuation 31 March 2019
<b>Employee members</b>		
Number	6,270	6,163
Total actual pay (£000)	124,258	107,695
Total accrued pension (£000)	20,666	16,983
Average age (liability weighted)	52.9	52.1
Future working lifetime (years)	6.3	8.3
<b>Deferred pensioners (including undecideds)</b>		
Number	7,151	7,733
Total accrued pension	11,103	11,286
Average age (liability weighted)	52.2	51.4
<b>Pensioners and dependants</b>		
Number	6,598	6,487
Total pensions in payment	33,587	33,073
Average age (liability weighted)	70.0	69.3

## APPENDIX 1

## Data

## Investment strategy

A summary of the investment strategy allocation used for the calculation of employer contribution rates and to derive the future assumed investment return is set out in Table 14.

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Table 14: Investment strategy used for the 2022 valuation

Asset class	Allocation
Global equities (unhedged)	35.0%
Emerging market equity (unhedged)	5.0%
DGF Low Beta	12.5%
DGF High Beta	7.5%
Property	10%
Infrastructure equity (unlisted)	10%
Multi Asset Credit (sub investment grad)	7.5%
Index Linked Gilt (24 yr maturity)	5%
Private Lending	7.5%
<b>Total</b>	<b>100.0%</b>

## APPENDIX 2

## Assumptions

## Financial assumptions

## Setting employer contribution rates

An asset-liability model is used to set employer contributions at the 2022 valuation. This model relies on Hymans Robertson's proprietary economic model, the Economic Scenario Service (ESS). The ESS reflects the uncertainty associated with future levels of inflation and asset returns and the interactions and correlations between different asset classes and wider economic variables. In the short term (first few years), the models are fitted with current financial market expectations. Over the longer term, models are built around views of fundamental economic parameters, for example equity risk premium, credit spreads and long term inflation. The table below shows the calibration of the ESS at 31 March 2022. Further information on the assumptions used for contribution rate setting is included in the Funding Strategy Statement.

Table 15: ESS individual asset class return distributions at 31 March 2022

	Annualised total returns										Inflation (CPI)	17 year real yield (CPI)	17 year yield
	Index Linked Gilts (long)	Private Equity	Property	Emerging Markets Equity	Unlisted Infrastructure Equity	Diversified Growth Fund (high equity beta)	Diversified Growth Fund (low equity beta)	Multi Asset Credit (sub inv grade)	All World ex UK Equity in GBP Unhedged				
10 years	16th %ile	-3.1%	-1.2%	-0.6%	-2.5%	0.7%	1.1%	1.4%	1.7%	-0.4%	1.6%	-1.7%	1.1%
	50th %ile	-0.7%	9.4%	4.4%	5.8%	5.9%	5.4%	3.2%	3.5%	5.8%	3.3%	-0.5%	2.5%
	84th %ile	2.0%	20.1%	9.5%	14.4%	11.2%	9.5%	5.1%	5.2%	11.9%	4.9%	0.7%	4.3%
20 years	16th %ile	-2.6%	2.4%	1.4%	0.1%	2.6%	2.8%	2.1%	2.8%	1.8%	1.2%	-0.7%	1.3%
	50th %ile	-0.9%	10.0%	5.0%	6.3%	6.5%	6.0%	3.8%	4.4%	6.3%	2.7%	1.1%	3.2%
	84th %ile	0.8%	17.6%	8.9%	12.8%	10.6%	9.4%	5.7%	6.0%	11.1%	4.3%	2.7%	5.7%
40 years	16th %ile	-1.1%	4.7%	2.6%	2.1%	3.9%	4.0%	2.5%	3.6%	3.4%	0.9%	-0.6%	1.1%
	50th %ile	0.3%	10.3%	5.5%	6.8%	7.0%	6.6%	4.4%	5.3%	6.8%	2.2%	1.3%	3.3%
	84th %ile	1.9%	16.1%	8.8%	11.7%	10.3%	9.4%	6.5%	7.1%	10.4%	3.7%	3.2%	6.1%
	Volatility (Disp) (5 yr)	9%	30%	15%	26%	15%	13%	5%	6%	18%	3%		

## APPENDIX 2

# Assumptions

## Financial assumptions

### Calculating the funding level

The table below summarises the assumptions used to calculate the funding level at 31 March 2022, along with a comparison at the last valuation.

Table 16: Summary of assumptions used for measuring the funding level, compared to last valuation on 31 March 2019

Assumption	31 March 2022	Required for	31 March 2019
Discount rate	3.5% pa (based on an 80% likelihood)	To place a present value on all the benefits promised to scheme members at the valuation date.	3.3% pa (based on an 82% likelihood)
Benefit increases/CARE revaluation	2.7% pa	To determine the size of future benefit payments.	2.3% pa
Salary increases	3.4% pa	To determine the size of future final-salary linked benefit payments.	3.0% pa

### Allowing for the McCloud remedy

Allowance has been included for this expected benefit change at the 2022 valuation as directed by the Department of Levelling Up, Housing and Communities [in their letter dated March 2022](#)<sup>1</sup>. Further technical detail about this assumption is set out in guide 13 of [Hymans Robertson's LGPS 2022 valuation toolkit](#)<sup>2</sup>

APPENDIX 2

# Assumptions

## Demographic assumptions

The same demographic assumptions are used in setting contribution rates and assessing the current funding level.

Page 162  
**Longevity**

Table 17: Summary of longevity assumptions

	This valuation 31 March 2022	Last valuation 31 March 2019
Baseline assumption	VitaCurves based on member-level lifestyle factors	VitaCurves based on member-level lifestyle factors
Future improvements	<p><b>CMI 2021 model</b> Initial addition = <b>0.25% (both Female and Male)</b> Smoothing factor = <b>7.0</b> <b>1.5% pa</b> long-term rate of improvement</p>	<p><b>CMI 2018 model</b> Initial addition = <b>0.25% (Female), 0.5% (Male)</b> Smoothing factor = <b>7.0</b> <b>1.25% pa</b> long-term rate of improvement</p>

Further information on these assumptions can be provided upon request. Sample rates are included on the next page.

## Other demographic assumptions

Table 18: Summary of other demographic assumptions

Death in service	See sample rates in Tables 19 & 20
Retirements in ill health	See sample rates in Tables 19 & 20
Withdrawals	See sample rates in Tables 19 & 20
Promotional salary increases	See sample rates in Tables 19 & 20
Commutation	60% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	1.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option
Retirement age	The earliest age at which a member can retire with their benefits unreduced
Family details	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The dependant of a male member is assumed to be 3 years younger than him and the dependent of a female member is assumed to be 3 years older than her.

APPENDIX 2

# Assumptions

## Sample rates for demographic assumptions

### Males

Table 19: Sample rates of male demographic assumptions

Page Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	404.31	813.01	0	0	0	0
25	117	0.17	267.06	537.03	0	0	0	0
30	131	0.2	189.49	380.97	0	0	0	0
35	144	0.24	148.05	297.63	0.1	0.07	0.02	0.01
40	150	0.41	119.20	239.55	0.16	0.12	0.03	0.02
45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
50	162	1.09	92.29	185.23	0.9	0.68	0.23	0.17
55	162	1.7	72.68	145.94	3.54	2.65	0.51	0.38
60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33
65	162	5.1	0	0	11.83	8.87	0	0

### Females

Table 20: Sample rates of female demographic assumptions

Page Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.1	352.42	467.37	0	0	0	0
25	117	0.1	237.14	314.44	0.1	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.1	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	157	0.62	133.25	176.51	0.52	0.39	0.1	0.08
50	162	0.9	112.34	148.65	0.97	0.73	0.24	0.18
55	162	1.19	83.83	111.03	3.59	2.69	0.52	0.39
60	162	1.52	67.55	89.37	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

Figures are incidence rates per 1,000 members except salary scale. FT and PT denoted full-time and part-time members respectively.

## APPENDIX 3

# Reliances and limitations

We have been commissioned by London Borough of Havering (“the Administering Authority”) to carry out a full actuarial valuation of the London Borough of Havering Pension Fund (“the Fund”) as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”).

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This report is addressed to the Administering Authority. It has been prepared by us as actuaries to the Fund and is solely for the purpose of summarising the main outcomes of the 2022 actuarial valuation. It has not been prepared for any other third party or for any other purpose. We make no representation or warranties to any third party as to the accuracy or completeness of this report, no reliance should be placed on this report by any third party and we accept no responsibility or liability to any third party in respect of it.

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This summary report is the culmination of other communications in relation to the valuation, in particular:

- Our [2022 valuation toolkit](#) which sets out the methodology used when reviewing funding plans
- Our paper to the Fund’s Pension Committee dated October 2022 which discusses the funding strategy for the London Borough of Havering
- Our initial results report dated October 2022 which outlines the whole fund results and inter-valuation experience

- The Funding Strategy Statement which details the approach taken to adequately fund the current and future benefits due to members

The totality of our advice complies with the Regulations as they relate to actuarial valuations.

The following Technical Actuarial Standards apply to this advice, and have been complied with where material and to a proportionate degree. They are:

- TAS100 – Principles for technical actuarial work
- TAS300 – Pensions

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## APPENDIX 4

## Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Asset-liability modelling	An approach to modelling and understanding risk for a pension fund. The assets and liabilities are projected forward into the future under many different future scenarios of inflation, investment returns and interest rates. The future scenarios are then analysed to understand the risk associated with a particular combination of contribution rates and investment strategy. Different combinations of contribution rates and/or investment strategies may be tested.
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts we partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insight on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Deferred pensioners	A former employee who has left employment (or opted out of the pension fund) but is not yet in receipt of their benefits from the fund.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. For example, retirement age or promotional salary scales. Demographic assumptions typically determine the timing of benefit payments.

## APPENDIX 4

## Glossary

Term	Explanation
Discount rate	A number used to place a single value on a stream of future payments, allowing for expected future investment returns.
Employee members	Members who are currently employed by employers who participate in the fund and paying contributions into the fund.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns and interest rates.
Funding position	The extent to which the assets held by the fund at 31 March 2022 cover the accrued benefits ie the liabilities. The two measures of the funding position are: <ul style="list-style-type: none"> <li>• the funding level - the ratio of assets to liabilities; and</li> <li>• the funding surplus/deficit - the difference between the asset and liabilities values.</li> </ul>
Inflation	Prices tend to increase over time, which is called inflation. Inflation is measured in different ways, using a different 'basket' of goods and mathematical formulas.
Liabilities	An employer's liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members. Benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Pensioners	A former employee who is in receipt of their benefits from the fund. This category includes eligible dependants of the former employee.

## APPENDIX 4

## Glossary

Term	Explanation
Primary rate	The estimated cost of future benefits, expressed in percentage of pay terms. The primary rate will include an allowance to cover the fund's expenses.
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a prudence Level of more than 50%. All other assumptions aim to be best estimate.
Prudence Level	A percentage indicating the likelihood that a discount rate assumption will be achieved in practice, based on the ESS model. The higher the prudence level, the more prudent the discount rate is.
Secondary rate	An adjustment to the primary rate, generally to reflect costs associated with benefits that have already been earned up to the valuation date. This may be expressed as a percentage of pay and/or monetary amount.
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire, but are no longer earning new benefits.

# Rates & Adjustments certificate

# Rates and Adjustments Certificate

In accordance with Regulation 62 of the LGPS regulations, we have assessed the contributions that should be paid into the London Borough of Havering Pension Fund (the Fund) by participating employers for the period 1 April 2023 to 31 March 2026 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in this Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated April 2023 and in Appendix 2 of the report on the actuarial valuation dated 31 March 2023. These assumptions underpin our estimate of the number of members who will become entitled to a payment of pensions under the provisions of the LGPS and the amount of liabilities arising in respect of such members.

The table below summarises the whole fund primary and secondary contribution rates for the period 1 April 2023 to 31 March 2026. The primary rate is the payroll weighted average of the underlying individual employer primary rates and the secondary rate is the total of the underlying individual employer secondary rates, calculated in accordance with the LGPS regulations and CIPFA guidance. The secondary rate has been shown both as a monetary amount and an equivalent percentage of the projected pensionable pay.

	This valuation 31 March 2022	
<b>Primary rate</b>	21.1% of pay	
<b>Secondary rate</b>	Monetary amount	Equivalent to % of payroll
	2023/24	£6,440,000 4.9%
	2024/25	£6,275,000 4.6%
	2025/26	£5,103,000 3.6%

The required minimum contribution rates for each employer in the Fund are set out in the remained of this certificate.

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
<b>Council</b>								
	London Borough of Havering Pool	20.7%	-4.2% plus £10,650k	-4.2% plus £10,650k	-4.2% plus £9,650k	16.5% plus £10,650k	16.5% plus £10,650k	16.5% plus £9,650k
<b>Academies</b>								
10502	Abbs Cross Academy	21.5%	2.8%	1.4%	0.0%	24.3%	22.9%	21.5%
10503	Frances Bardsley School	22.2%	-0.4%	-0.4%	-0.4%	21.8%	21.8%	21.8%
10506	Coopers Company & Coborn School	22.4%				22.4%	22.4%	22.4%
10507	Sacred Heart of Mary School	23.0%	1.9%	1.9%	1.9%	24.9%	24.9%	24.9%
10519	Harris Academy Trust	22.2%	1.2%	1.7%	2.2%	23.4%	23.9%	24.4%
10522	Campion Academy	23.0%	0.0%	0.0%	0.0%	23.0%	23.0%	23.0%
10524	St Edwards Academy	22.4%	3.8%	3.8%	3.8%	26.2%	26.2%	26.2%
10525	Emerson Park Academy	23.0%				23.0%	23.0%	23.0%
10529	Hornchurch High School	21.4%	-1.0%	-1.0%	-1.0%	20.4%	20.4%	20.4%
10535	Langtons Junior Academy	22.9%	-1.3%	-1.3%	-1.3%	21.6%	21.6%	21.6%
10536	Oasis Pinewood Academy	21.8%				21.8%	21.8%	21.8%
10549	Benhurst Primary School	22.9%				22.9%	22.9%	22.9%
10550	Concordia Academy	20.6%	-2.7%	-1.6%	-0.5%	17.9%	19.0%	20.1%
10552	Marshalls Park Academy	22.3%	1.7%	1.2%	0.7%	24.0%	23.5%	23.0%
10559	Harrow Lodge Primary School	21.9%	0.1%	0.1%	0.1%	22.0%	22.0%	22.0%
10561	Gaynes Academy	22.9%	2.9%	2.4%	1.8%	25.8%	25.3%	24.7%
10564	Dame Tipping Academy	22.1%	2.5%	2.5%	2.5%	24.6%	24.6%	24.6%
	Drapers Multi Academy Trust	22.3%	0.9%	0.9%	0.9%	23.2%	23.2%	23.2%
	Empower Learning Academy Trust	22.7%	1.1%	1.1%	1.1%	23.8%	23.8%	23.8%

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
	Hornchurch Academy Trust	22.6%	1.8%	1.2%	0.6%	24.4%	23.8%	23.2%
	Lime Trust	21.9%				21.9%	21.9%	21.9%
	Olive Academies	21.0%	3.8%	1.9%	0.0%	24.8%	22.9%	21.0%
	Success for All Educational Trust	22.2%	0.4%	0.4%	0.4%	22.6%	22.6%	22.6%
<b>Resolution Bodies</b>								
10577	Mercury Land Holdings	14.5%	3.6%	3.6%	3.6%	18.1%	18.1%	18.1%
<b>Admission Bodies</b>								
10499	Atalian Servest Food Co Ltd	38.4%	1.9%	1.9%	1.9%	40.3%	40.3%	40.3%
10554	Accent Catering	40.2%	-40.2%	-40.2%	-40.2%	0.0%	0.0%	0.0%
10560	Harrison Catering	37.8%	0.4%	0.4%	0.4%	38.2%	38.2%	38.2%
10565	Lewis and Graves	36.7%	-36.7%	-36.7%	-36.7%	0.0%	0.0%	0.0%
10570	Harrison Catering Services Ltd	39.4%	-3.7%	-3.7%	-3.7%	35.7%	35.7%	35.7%
10573	May Harris (Royal Liberty)	36.5%	-11.2%	-11.2%	-11.2%	25.3%	25.3%	25.3%
10578	Olive Dining Ltd	37.4%	3.6%	3.6%	3.6%	41.0%	41.0%	41.0%
	SLM	27.0%	-4.0%	-4.0%	-4.0%	23.0%	23.0%	23.0%

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# Notes to the Rates and Adjustments Certificate

- The London Borough of Havering may 'pre-pay' their primary and/or secondary rates annually or triennially in advance. Where a single year of contributions (primary and/or secondary ) are paid in advance, a discount of 0.9823 will apply. Longer periods of prepayment should be referred to the Fund's Actuary.
- Certain bodies have been combined for contribution rate purposes. These bodies should pay the rates of the following pooled employers stated in the Rates and Adjustments Certificate:

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Employer code	Employer name	Pool
10515	SLM Fitness and Health Ltd	SLM
10516	SLM CommunityLeisure Ltd	SLM
10520	Drapers Academy	Drapers Multi Academy Trust
10521	Brittons Academy	Empower Learning Academy Trust
10523	Hall Mead Academy	Empower Learning Academy Trust
10526	Redden Court Academy	Success for All Educational Trust
10531	Upminster Infants	Hornchurch Academy Trust
10532	Upminster Juniors	Hornchurch Academy Trust
10533	Bower Park	Empower Learning Academy Trust
10534	Brookside Drapers Academy	Drapers Multi Academy Trust
10539	Rise Park Infant	Success for All Educational Trust
10540	Rise Park Junior	Success for All Educational Trust
10542	Pyrgo Priory Primary School	Drapers Multi Academy Trust
10543	Forest Approach Academy	Lime Trust

Employer code	Employer name	Pool
10545	Drapers Marylands	Drapers Multi Academy Trust
10546	Ravensbourne Academy	Lime Trust
10547	Brookside Infant Academy	Drapers Multi Academy Trust
10551	Olive AP Academy - Havering	Olive Academies
10553	Royal Liberty Academy	Success for All Educational Trust
10555	Scargill Infant Academy	Hornchurch Academy Trust
10556	Scargill Junior Academy	Hornchurch Academy Trust
10557	Whybridge Junior Academy	Hornchurch Academy Trust
10562	Hacton Academy	Empower Learning Academy Trust
10563	Sanders Academy	Success for All Educational Trust
10568	Drapers MAT	Drapers Multi Academy Trust
10575	Corbets Tey School	London Borough of Havering Pool
10576	Olive Academies	Olive Academies

# Further comments to the Rates and Adjustments Certificate

- Contributions expressed as a percentage of payroll should be paid into the Fund at a frequency in accordance with the requirements of the Regulations
- Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentations using methods and factors issued by us from time to time or as otherwise agreed.
- Payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions.

The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund Actuary.

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**SIGNATURE**

Steven Law FFA

15 February 2023

For and on behalf of Hymans Robertson LLP

**SIGNATURE**

Steven Scott FFA

# Section 13 Dashboard

# Section 13 dashboard

**To be completed once GAD confirm required information**

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**PENSIONS COMMITTEE 21 March 2023**

**Subject Heading:**

**SERVICE REVIEW OF THE PENSION FUND CUSTODIAN**

**CLT Lead:**

**1 October 2021 to 30 September 2022  
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)**  
Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer

**Financial summary:**

Costs for the custodial services for the period are met by the Pension Fund

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

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

**SUMMARY**

This report reviews the performance of the Custodian, Northern Trust, for the period 1 October 2021 to 30 September 2022.

**RECOMMENDATIONS**

It is recommended that the Committee notes the views of officers on the performance of the Custodian and makes any comment on the report which it considers appropriate (Table 1 and Section 3 refers).

**REPORT DETAIL**

**1. Background**

- 1.1 Northern Trust was appointed to commence Custodial and Performance Measurement Services from 1 October 2019 and expires on the 30 September 2023.
- 1.2 The Pension Funds within oneSource and the London CIV (LCIV) now share the same custodian. Using a single provider across the LCIV and with other underlying LGPS will benefit from having opportunities for efficiencies e.g. having a single system for the transition process, cost benefits (economies of scale from the full breadth of the LCIV relationship) and reduced operational risk.
- 1.3 Officers are in the process of renewing this contract. As with the previous contract award, it is envisaged that this will be a direct award given that Northern Trust already have the market share of the London Funds (23 out of 32) and there are limited providers in the market (subject to governance decision making process).
- 1.4 This period of review covers the custodial and performance measuring services delivered by Northern Trust.

**2. Review of the Custodian's performance**

- 2.1 The Custodian operate a wide range of functions. This falls into the following main categories:

**(a) Safe Keeping and Custody of assets**

This refers to the maintenance of accurate records and certificates of the ownership of stock and ensuring that dividend income and other distributions

are received appropriately. The Custodian also manages the tax position of the pension fund (the 'Fund'), claiming back any recoverable overseas withholding tax paid on dividends received and maintaining the tax records of the fund.

**(b) Investment Accounting and Reporting**

The Custodians produce accounting reports that are used for producing the Pension Fund Statement of Accounts and enable us to comply with the International Financial Reporting Standards (IFRS) and CIPFA accounting guidance. These reports are accessed and downloaded from their client portal "passport".

They keep a record of the book costs (valuations) and the holdings in the various asset classes for each of the investment managers' portfolio as well as at the total fund level.

The custodian contract also includes completion of the relevant investment sections of the UK Office of National Statistic Returns (ONS), which is a statutory requirement.

**(c) Performance measurement**

This is a key part of the investment management process and forms an essential component of the reporting requirements of the Fund. Performance measurement enables the Pensions Committee and officers to understand whether the investment objectives of the Fund are being met and if the fund managers are achieving their targets. To enable the Fund to do this Northern Trust produce monthly and quarterly reports setting out rates of return versus benchmarks for each manager and for the whole fund over a number of time periods extending from one month to inception.

- 2.2 Services are reviewed annually to ensure that the Fund is receiving best value for money and is benefiting from all the services the custodian has to offer. Monitoring the contract also meets post contract award procedures and ensures services are being delivered in accordance to the contract.
- 2.3 Officers have assessed the service against a set of criteria and adopted the RAG rating method to define Green (Favourable output), Amber (Neutral, may require further monitoring) Red (Unfavourable). Officers have shared the outcome of the service review with Northern Trust, which has been set out in the following table:

**Table 1**

<b>CRITERIA</b>	<b>ASSESSMENT</b>	<b>Rating</b>
<b>Safe Keeping and Custody of Assets</b>		
It is important that the Pensions Committee and officers have confidence	Officers review the custodians audited System and Organisation Control	<b>GREEN: Officers have confidence that the assets are</b>

<b>CRITERIA</b>	<b>ASSESSMENT</b>	<b>Rating</b>
that all assets are secure and properly accounted for.	(SOC1) report produced annually. No concerns were raised in their latest report covering the 12 months to 30 Sept 2021. The Sept 22 report will not be available until approximately 6 months after the period end date.	accounted for correctly.
<b>Investment Accounting and Reporting</b>		
It is important that accurate accounting records are maintained and appropriate reconciliations can be made against the Fund's investment managers records.	Officers run detailed reports from the custodian's website using their "passport" tool. These reports are reconciled to the fund manager reports and any differences investigated. This provides assurances that accurate records are maintained. Access to additional reporting functionality further assisted officers in reconciling the 2021/22 accounts.	<b>GREEN:</b> Officers are satisfied that accurate accounting records are maintained with no audit issues identified to date.
Prompt and responsive service	Reponses to queries are dealt with promptly.	<b>GREEN:</b> Officers are very satisfied and appreciative of the responsive service
Good communication and support	Officers communicate frequently with the custodian covering general day-to-day operations and to obtain assistance in ensuring investment instructions templates are completed correctly.	<b>GREEN:</b> Communications and support continue to be very satisfactory.
Provision of data for the Office of National Statistics (ONS) Returns	The Fund uses the custodians ONS service and they complete the investment sections within the return and answer/resolve any queries raised by ONS. These have	<b>GREEN:</b> Officers are very satisfied with this service

<b>CRITERIA</b>	<b>ASSESSMENT</b>	<b>Rating</b>
	been completed within the required timescales.	
<b>Performance Measurement</b>		
It is important that the Pensions Committee and officers understand whether the investment objectives of the Fund are being met and if the fund managers are achieving their targets.	Northern Trust performance measurement service produce monthly and quarterly reports setting out returns versus benchmarks for each manager and the whole fund over a number of time periods that cover 1 month, 3 months, 1 year, 3 years, 5 years and inception. Performance reports are available via the custodian’s website using the “RADAR” tool.	<b>GREEN</b> <i>Performance reports are received within specified timescales and officers are very satisfied with this service.</i>

**3. Conclusion**

- 3.1 Officers are satisfied with the provision of safekeeping and custody functions.
- 3.3 Officers are satisfied with the overall investment accounting and reporting functions.
- 3.4 Officers are satisfied with the performance monitoring service.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

As the Fund’s asset pool provider London CIV use Northern Trust as their appointed custodian the Fund benefits from a reduced pricing structure offered for those funds that have assets invested on the London CIV platform.

Upon reviewing reconciliation and year-end processes, management recognised the potential key person risk for reconciling the accounts and decided, for service planning reasons, to expand the current contract to include the custodian’s additional Specialist accounting reporting service. This additional service means that the custodian is able to produce the accounts and provide officers with access to the

comprehensive suite of financial reports, which will further support the reconciliations of the accounts. Officers used this facility for the first time whilst closing the 2020/21 statement of accounts and found this very useful in providing assurance that in-house reconciliations undertaken during the year were accurate

This additional accounting service cost of £10,013 p.a. is reflected in table 2 below.

See fee table below for fee breakdown:

**Table 2**

<b>Fee Breakdown</b>	<b>Oct 19 to Sept 20</b>	<b>Oct 20 to Sept 21</b>	<b>Oct 21 to Sept 22</b>	<b>Total</b>
	<b>Actual £</b>	<b>Actual £</b>	<b>Actual £</b>	<b>Actual £</b>
Custody Fee	29,085	26,127	31,144	86,356
Accounting Services	0	5,000*	10,013	15,013
Performance Measurement Fees	23,110	23,849	26,947	73,906
<b>Total</b>	<b>52,195</b>	<b>54,976</b>	<b>68,104</b>	<b>175,275</b>

\* part year only – this service commenced 1 April 2021

Custody – fees cover transaction charges, administration costs, foreign exchange charges and data for use in ONS submissions.

Accounting Services – production of reports used for producing the Pension Fund Statement of Accounts. This additional service was procured from 1 April 2021

Performance Measurement - fees are applied against each manager's performance data and the index against which it is measured.

There is a risk that the Fund's value could be misstated if poor or incorrect data was provided by the custodian. This is mitigated by frequent reconciliations by the custodian to fund manager records and officer reconciliations. Accounting and reporting information is critical for year-end processes and these need to be produced in a timely manner to ensure accounts can be closed within statutory timeframes.

All custodian and performance measurement fees are met from the Pension Fund.

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

**Legal implications and risks:**

There are no apparent legal implications or risks arising from this report.

**Human Resources implications and risks:**

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

**Equalities implications and risks:**

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

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

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

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

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

**Subject Heading:**

The admission of Mears Group in to the London Borough of Havering Pension Fund for the provision of housing repair services to the London Borough of Havering

**SLT Lead:**

Dave McNamara  
Section 151 Officer

**Report Author and contact details:**

Caroline Guyon  
Pensions Projects and Contracts Manager  
01708 432185  
caroline.guyon@havering.gov.uk

**Policy context:**

Local Government Pension Scheme Regulations 2013. Schedule 2 part 3

**Financial summary:**

The Pension Fund Actuary has assessed the level of Indemnity and Mears Group will secure a bond. The employer contribution rate has been set at 37.7%.

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

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

**SUMMARY**

The purpose of this report is to request the London Borough of Havering Pension Committee agree to the proposed closed agreement admission of Mears Group into the London Borough of Havering Pension Fund under the provisions of The Local Government Pension Scheme (LGPS) Regulations 2013, Schedule 2, Part 3 and follows New Fair Deal Guidance. This is due to the TUPE of staff to Mears Group for the provision of housing repairs services. The protected staff were originally Authority employees, TUPE transferred to Breyer Group as part of the original outsourcing of the contract, now transferred to Mears Group as part of the re-tender of the contract.

**RECOMMENDATIONS**

That the admission of Mears Group into the London Borough of Havering Pension Fund (“the Fund”) as an admitted body to enable 7 members of staff who transferred from Breyer Group (previously Authority staff) to continue membership of the LGPS be agreed, subject to:

- (a) All parties signing up to an Admission Agreement, and
- (b) Mears Group securing a bond in an approved form to protect the pension fund.

**REPORT DETAIL**

1. Mears Group succeeded in winning the contract to provide housing repairs services to LB Havering (“the Authority”). The contract is for 10 years and commenced 1 April 2022
2. This is a second generation transfer where the pension rights of ex Authority staff who were part of the original outsourcing of the housing repairs services and TUPE transferred to Breyers Group are entitled to continued protection as part of the re-tender of that contract.
3. The contracts of employment of the affected staff transferred when the housing repairs services transferred from Breyer Group to Mears Group on 1 April 2022. The Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) Amendment Regulations 2014 (“TUPE”) protects the employment terms and conditions of the relevant employees except for pension rights which in this instance are covered under the New Fair Deal Guidance 2013. 7 employees were a member of the LGPS on the transfer date.

4. New Fair Deal Guidance is a non-statutory policy setting out how pension issues are to be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services. The guidance is needed to address Pension rights not covered by TUPE.
5. The Pension Regulations require the LGPS Pension Funds to allow an admission to its scheme if the organisation is one that provides or which will provide a service or assets in connection with the exercise of a function of a scheme employer, as a result of the transfer of the service or assets by means of a contract or other arrangement.
6. Following guidance from DLUHC), where a transferee admission body (“TAB”) and the scheme employer undertake to meet the relevant requirements of Schedule 2, Part 3, an administering authority cannot decline to admit to the LGPS the eligible employees of the TAB. The terms on which the admission is permitted are noted in the Admission Agreement for the purposes of these Regulations.
7. Mears Group falls within the definition contained in Schedule 2, Part 3 of the LGPS Regulations 2013 and as such is eligible to become a TAB. Under Schedule 2, Part 3, the administering authority must admit to the scheme the eligible designated employees of the TAB, provided the TAB and the scheme employer undertakes to meet the relevant requirements of the regulations through an Admission Agreement. Legal engrossment of the admission agreement is subject to the service transfer taking place.
8. The Authority will seek to sign appropriate transferee Admission Agreements to allow Mears Group to be admitted to the Fund. When the Admission Agreement is formed Mears Group will be required to pay contribution rates as determined by the Fund Actuary. This has been set initially at 37.7% of pensionable pay.

## **IMPLICATIONS AND RISKS**

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

Continued membership in the LGPS means there is no loss to contributions into the Fund. As noted in the report, employer contributions to be paid by admitted bodies are determined by the Fund’s Actuary. Mears Group’ employer contribution rate has been set at 37.7%. Mears Group are allocated a share of assets to ensure they are fully funded at the transfer date.

The Fund’s actuary has determined a bond or indemnity is required to cover the assessed level of risk arising in relation to premature termination of the provision of service or assets provided by Mears Group by reason of insolvency, winding up or liquidation and the level of bond set by the actuary is £1.493m. Mears Group will seek to secure a bond in an approved form.

There are risks to the letting authority (LB Havering) if the indemnity levels are not reviewed in line with employee and legislative changes. This risk will be managed by putting in place a timescale for reviews and ensure this is included in the Admission Agreement. Indemnity reviews are to be carried out by the Fund's actuary.

The letting authority also faces risk if the admitted body is unable to meet any funding deficits at the end of a contract. This risk will be managed by establishing regular reviews of Mears Group's employer rates. Any deficit not met by Mears Group at the end of the contract will be met by the letting authority.

The risk of non-payment of contributions, which would have a cash flow impact, is actively managed by the Havering pension team on a monthly basis with appropriate escalation for non-compliance. Cash flow performance is reported in the Pension Fund Annual Report.

Mears Group are a transferee admitted body within other Local Government Pension Funds, so have experience of the implications of being a Scheme Employer.

Hymans Robertson have carried out an assessment which shows (at 31 January 2023) Mears Group are a low risk employer for the Pension Fund. This will be reviewed on an annual basis.

There are no immediate financial implications to the Fund arising from the Fair Deal arrangements

**Legal implications and risks:**

Local Authorities are scheme employers for the purposes of the local government pension scheme. Where they let contracts for the provision of services, their contractors are eligible to become admission bodies, subject to the completion of an admission body agreement and the provision of a bond or indemnity, if required, to cover the risks to the pension fund arising from premature termination of the provision of service by reason of insolvency, winding up or liquidation of the admission body.

Local Authorities are public sector bodies required to have regard to the Government's policy guidance "Fair Deal for staff pensions: staff transfer from central Government" (published with immediate effect on the 4 October 2013) when outsourcing services. Where staff are compulsorily transferred (TUPE) to an independent provider of public services (Mears Group) those staff will generally have a right of continued access to the relevant public service pension arrangements (Havering LGPS).

In the case of the ex Havering Council employees transferring to their new housing repairs contractor, Fair Deal obligations can be achieved by means of an admission body agreement, between the administering authority (Havering) and the letting authority (Havering) and the employing/admission body (Mears Group)

allowing the transferring employees to remain a member of the Local Government Pension Scheme. The Council and the contractor have applied for admission on a closed basis and actuarial assessments have been undertaken on that basis in order to assess contributions and the indemnity level.

The admittance of Mears Group into the Havering Pension Fund will ensure the current employees enjoy their current pension protection when transferring to their new employer and negate against any complaints to the Pension Regulator and Pensions Ombudsman resulting from a failure to ensure Fair Deal pension protection for its employee on transfer.

The recommendations in this report are in keeping with the constitutional delegation.

**Human Resources implications and risks:**

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

Admitted body status will allow the former Authority employees (who transferred to the new provider on 1 April 2022) continued membership eligibility of the LGPS.

**Equalities implications and risks:**

The proposed admission of Mears Group into the London Borough of Havering Pension Fund will not only ensure that New Fair Deal guidance has been followed but will also enable the ex Havering Council employees who have been compulsorily transferred to Mears Group to continue to enjoy pension protection when transferred to the new employer

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

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

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

The Authority 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 Authority is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants. We will

ensure that disabled people with sensory impairments are able to access the strategy.

**PENSIONS COMMITTEE**

**Subject Heading:**

The admission of May Harris Multi Services in to the London Borough of Havering Pension Fund for the provision of cleaning services to Whybridge Junior School

**SLT Lead:**

Dave McNamara  
Statutory Section 151 and Chief Finance Officer

**Report Author and contact details:**

Caroline Guyon  
Pensions Projects and Contracts Manager  
01708 432185  
caroline.guyon@haverling.gov.uk

**Policy context:**

Local Government Pension Scheme Regulations 2013. Schedule 2 part 3

**Financial summary:**

The Pension Fund Actuary has assessed the level of Indemnity and May Harris Multi Services will secure a bond or guarantee. The employer contribution rate has been set at 21.1%.

**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 purpose of this report is to request the London Borough of Havering Pension Committee agree to the proposed closed agreement admission of May Harris Multi Services into the London Borough of Havering Pension Fund under the provisions of The Local Government Pension Scheme (LGPS) Regulations 2013, Schedule 2, Part 3 and follows New Fair Deal Guidance. This is due to the TUPE of cleaning staff from Whybridge Junior School to May Harris Multi Services for the provision of cleaning services

**RECOMMENDATIONS**

That the admission of May Harris Multi Services into the London Borough of Havering Pension Fund as an admitted body to enable 2 members of staff who transferred from Whybridge Junior School to continue membership of the LGPS be agreed, subject to:

- (a) All parties signing up to an Admission Agreement, and
- (b) May Harris Multi Services securing a bond or guarantee in an approved form to protect the pension fund.

**REPORT DETAIL**

1. May Harris Multi Services succeeded in winning the contract to provide cleaning services to Whybridge Junior School. The contract with May Harris Multi Services is for a minimum of three years and commenced on 17 October 2022.
2. The contracts of employment of the affected staff transferred when the cleaning services transferred from Whybridge Junior School to May Harris Multi Services on 17 October 2022. The Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) Amendment Regulations 2014 (“TUPE”) protects the employment terms and conditions of the relevant employees except for pension rights which in this instance are covered under the

New Fair Deal Guidance 2013. 2 employees were a member of the LGPS on the transfer date.

3. New Fair Deal Guidance is a non-statutory policy setting out how pension issues are to be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services. The guidance is needed to address Pension rights not covered by TUPE.
4. The Pension Regulations require the LGPS Pension Funds to allow an admission to its scheme if the organisation is one that provides or which will provide a service or assets in connection with the exercise of a function of a scheme employer, as a result of the transfer of the service or assets by means of a contract or other arrangement.
5. Following guidance DLUHC, where a transferee admission body ("TAB") and the scheme employer undertake to meet the relevant requirements of Schedule 2, Part 3, an administering authority cannot decline to admit to the LGPS the eligible employees of the TAB. The terms on which the admission is permitted are noted in the Admission Agreement for the purposes of these Regulations.
6. May Harris Multi Services falls within the definition contained in Schedule 2, Part 3 of the LGPS Regulations 2013 and as such is eligible to become a transferee admission body. Under Schedule 2, Part 3, the administering authority must admit to the scheme the eligible designated employees of the TAB, provided the TAB and the scheme employer undertakes to meet the relevant requirements of the regulations through an Admission Agreement. Legal engrossment of the admission agreement is subject to the service transfer taking place.
7. The London Borough of Havering will seek to sign appropriate transferee Admission Agreements to allow May Harris Multi Services to be admitted to the London Borough of Havering Pension Fund. When the Admission Agreement is formed May Harris Multi Services will be required to pay contribution rates as determined by the Fund Actuary. This has been set initially at 21.1% of pensionable pay.

## **IMPLICATIONS AND RISKS**

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

Continued membership in the LGPS means there is no loss to contributions into the Fund. As noted in the report, employer contributions to be paid by admitted bodies are determined by the Fund's Actuary. May Harris Multi Services' employer contribution rate has been set at 21.1%. May Harris Multi Services are allocated a share of assets to ensure they are fully funded at the transfer date.

The Fund's actuary has determined a bond or indemnity is required to cover the assessed level of risk arising in relation to premature termination of the provision of

service or assets provided by May Harris Multi Services by reason of insolvency, winding up or liquidation and the level of bond set by the actuary is £7,000. May Harris Multi Services will seek to secure a bond or guarantee in an approved form.

There are risks to the letting authority (Whybridge Junior School) if the indemnity levels are not reviewed in line with employee and legislative changes. This risk will be managed by putting in place a timescale for reviews and ensure this is included in the Admission Agreement. Indemnity reviews are to be carried out by the Fund's actuary.

The letting authority (Whybridge Junior School) also faces risk if the admitted body is unable to meet any funding deficits at the end of a contract. This risk will be managed by putting in place regular reviews of May Harris Multi Services' employer rates. Any deficit not met by May Harris Multi Services at the end of the contract will be met by the letting authority.

The risk of non-payment of contributions, which would have a cash flow impact, is actively managed by the Havering pension team on a monthly basis with appropriate escalation for non-compliance. Cash flow performance is reported in the Pension Fund Annual Report.

May Harris Multi Services are an existing transferee admitted body within the Havering and other Local Government Pension Funds, so have experience of the implications of being a Scheme Employer.

Hymans Robertson have carried out an assessment which shows (at 31 January 2023) May Harris Multi Services are a "medium risk" employer for the Pension Fund. However it should be noted the scale of the employer's assets and liabilities is extremely small and therefore the monetary risk is low. This will be reviewed on an annual basis.

There are no immediate financial implications to the Fund arising from the Fair Deal arrangements

**Legal implications and risks:**

Academies are scheme employers for the purposes of the local government pension scheme. Where they let contracts for the provision of services, their contractors are eligible to become admission bodies, subject to the completion of an admission body agreement and the provision of a bond or indemnity, if required, to cover the risks to the pension fund arising from premature termination of the provision of service by reason of insolvency, winding up or liquidation of the admission body.

Academies are public sector bodies required to have regard to the Government's policy guidance "Fair Deal for staff pensions: staff transfer from central Government" (published with immediate effect on the 4 October 2013) when outsourcing services. Where staff are compulsorily transferred (TUPE) to an independent provider of public services (May Harris Multi Services) those staff will

generally have a right of continued access to the relevant public service pension arrangements (Havering LGPS) where they are classified as non-teaching staff

In the case of the Whybridge Junior School employees transferring to their new cleaning contractor, Fair Deal obligations can be achieved by means of an admission body agreement, between the administering authority (Havering) and the letting authority (Whybridge Junior School) and the employing/admission body (May Harris Multi Services) allowing the transferring employees to remain a member of the Local Government Pension Scheme. The school and the contractor have applied for admission on a closed basis and actuarial assessments have been undertaken on that basis in order to assess contributions and the indemnity level.

The admittance of May Harris Multi Services into the Havering Pension Fund will ensure the current employees enjoy their current pension protection when transferring to their new employer and negate against any complaints to the Pension Regulator and Pensions Ombudsman resulting from a failure to ensure Fair Deal pension protection for its employee on transfer.

The recommendations in this report are in keeping with the constitutional delegation.

**Human Resources implications and risks:**

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

Admitted body status will allow the former Whybridge Junior School employees (who transferred to the new provider on 17 October 2022) continued membership eligibility of the LGPS.

**Equalities implications and risks:**

The proposed admission of May Harris Multi Services into the London Borough of Havering Pension Fund will not only ensure that New Fair Deal guidance has been followed but will also enable the Whybridge Junior School employee who has been compulsorily transferred to May Harris Multi Services to continue to enjoy pension protection when transferred to the new employer

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

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

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

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

## **PENSIONS COMMITTEE**

**Subject Heading:**

The admission of Kindred FM in to the London Borough of Havering Pension Fund for the provision of cleaning services to Broadford School

**SLT Lead:**

Dave McNamara  
Statutory Section 151 and Chief Finance Officer

**Report Author and contact details:**

Caroline Guyon  
Pensions Projects and Contracts Manager  
01708 432185  
caroline.guyon@havering.gov.uk

**Policy context:**

Local Government Pension Scheme Regulations 2013. Schedule 2 part 3

**Financial summary:**

The Pension Fund Actuary has assessed the level of Indemnity and Kindred FM will seek to secure a bond or guarantee. The employer contribution rate has been set at 26.3%.

**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 purpose of this report is to request the London Borough of Havering Pension Committee agree to the proposed closed admission agreement of Kindred FM into the London Borough of Havering Pension Fund (“the Fund”) under the provisions of The Local Government Pension Scheme (LGPS) Regulations 2013, Schedule 2, Part 3 and follows New Fair Deal Guidance. This is due to the TUPE of cleaning staff from Broadford School to Kindred FM for the provision of cleaning services

**RECOMMENDATIONS**

That the admission of Kindred FM into the London Borough of Havering Pension Fund as an admitted body to enable 1 member of staff who transferred from Broadford School to continue membership of the LGPS be agreed, subject to:

- (a) All parties signing up to an Admission Agreement, and
- (b) Kindred FM securing bond or Guarantee in an approved form to protect the pension fund.

**REPORT DETAIL**

1. Kindred FM succeeded in winning the contract to provide cleaning services to Broadford School. The contract with Broadford School is for a minimum of three years and commenced on 1 November 2022.
2. The contract of employment of the affected staff transferred when the cleaning services transferred from Broadford School to Kindred FM on 1 November 2022. The Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) Amendment Regulations 2014 (“TUPE”) protects the employment terms and conditions of the relevant employees except for pension rights which in this instance are covered under the New Fair Deal Guidance 2013. 1 employee was a member of the LGPS on the transfer date.
3. New Fair Deal Guidance is a non-statutory policy setting out how pension issues are to be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services. The guidance is needed to address Pension rights not covered by TUPE.
4. The Pension Regulations require the LGPS Pension Funds to allow an admission to its scheme if the organisation is one that provides or which will provide a service or assets in connection with the exercise of a function of a scheme

employer, as a result of the transfer of the service or assets by means of a contract or other arrangement.

5. Following guidance from DLUHC, where a transferee admission body (“TAB”) and the scheme employer undertake to meet the relevant requirements of Schedule 2, Part 3, an administering authority cannot decline to admit to the LGPS the eligible employees of the transferee admission body. The terms on which the admission is permitted are noted in the Admission Agreement for the purposes of these Regulations.
6. Kindred FM falls within the definition contained in Schedule 2, Part 3 of the LGPS Regulations 2013 and as such is eligible to become a TAB. Under Schedule 2, Part 3, the administering authority must admit to the scheme the eligible designated employees of the TAB provided the TAB and the scheme employer undertakes to meet the relevant requirements of the regulations through an Admission Agreement. Legal engrossment of the admission agreement is subject to the service transfer taking place.
7. The London Borough of Havering will seek to sign appropriate transferee Admission Agreements to allow Kindred FM to be admitted to the Fund. When the Admission Agreement is formed Kindred FM will be required to pay contribution rates as determined by the Fund Actuary. This has been set initially at 26.3% of pensionable pay.

## **IMPLICATIONS AND RISKS**

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

Continued membership in the LGPS means there is no loss to contributions into the Fund. As noted in the report, employer contributions to be paid by admitted bodies are determined by the Fund’s Actuary. Kindred FM’s employer contribution rate has been set at 26.3%. Kindred FM are allocated a share of assets to ensure they are fully funded at the transfer date.

The Fund’s actuary has determined a bond or indemnity is required to cover the assessed level of risk arising in relation to premature termination of the provision of service or assets provided by Kindred FM by reason of insolvency, winding up or liquidation and the level of bond set by the actuary is £28,000. Kindred FM will seek to secure a bond or guarantee to protect the Fund.

There are risks to the letting authority (Broadford School) if the indemnity levels are not reviewed in line with employee and legislative changes. This risk will be managed by putting in place a timescale for reviews and ensure this is included in the Admission Agreement. Indemnity reviews are to be carried out by the Fund’s actuary.

The letting authority also faces risk if the admitted body is unable to meet any funding deficits at the end of a contract. This risk will be managed by putting in

place regular reviews of Kindred's employer rates. Any deficit not met by Kindred FM at the end of the contract will be met by the letting authority.

The risk of non-payment of contributions, which would have a cash flow impact, is actively managed by the Havering pension team on a monthly basis with appropriate escalation for non-compliance. Cash flow performance is reported in the Pension Fund Annual Report.

Kindred FM are a transferee admitted body within other Local Government Pension Funds, so have experience of the implications of being a Scheme Employer.

Hymans Robertson have carried out an assessment which shows (at 31 January 2023) Kindred FM are a low risk employer for the Pension Fund. This will be reviewed on an annual basis.

There are no immediate financial implications to the Fund arising from the Fair Deal arrangements

**Legal implications and risks:**

Schools are scheme employers for the purposes of the local government pension scheme. Where they let contracts for the provision of services, their contractors are eligible to become admission bodies, subject to the completion of an admission body agreement and the provision of a bond or indemnity, if required, to cover the risks to the pension fund arising from premature termination of the provision of service by reason of insolvency, winding up or liquidation of the admission body.

Schools are public sector bodies required to have regard to the Government's policy guidance "Fair Deal for staff pensions: staff transfer from central Government" (published with immediate effect on the 4 October 2013) when outsourcing services. Where staff are compulsorily transferred (TUPE) to an independent provider of public services (Kindred FM) those staff will generally have a right of continued access to the relevant public service pension arrangements (Havering LGPS) where they are classified as non-teaching staff

In the case of the Broadford School employee transferring to their new cleaning contractor, Fair Deal obligations can be achieved by means of an admission body agreement, between the administering authority (Havering) and the letting authority (Broadford School) and the employing/admission body (Kindred FM) allowing the transferring employee to remain a member of the Local Government Pension Scheme. The school and the contractor have applied for admission on a closed basis and actuarial assessments have been undertaken on that basis in order to assess contributions and the indemnity level.

The admittance of Kindred FM into the Havering Pension Fund will ensure the current employee enjoys their current pension protection when transferring to their new employer and negate against any complaints to the Pension Regulator and Pensions Ombudsman resulting from a failure to ensure Fair Deal pension protection for its employee on transfer.

The recommendations in this report are in keeping with the constitutional delegation.

**Human Resources implications and risks:**

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

Admitted body status will allow the former Broadford School employee (who transferred to the new provider on 1 November 2022) continued membership eligibility of the LGPS.

**Equalities implications and risks:**

The proposed admission of Kindred FM into the London Borough of Havering Pension Fund will not only ensure that New Fair Deal guidance has been followed but will also enable the Broadford School employee who has been compulsorily transferred to Kindred FM to continue to enjoy pension protection when transferred to the new employer

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

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

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

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

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