

## Pension Fund

### Introduction

The Council's Pension Fund is operated under the Local Government Pension Scheme Regulations 2007; the Fund provides benefits for employees (excluding teachers) which include retirement pensions, spouse and children's pensions, death grants and other lump sum payments. Civil partners are now recognised as having the same benefit rights as members' spouses.

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments. The Fund does not form part of the Council's consolidated accounts.

### Membership

The membership of the Pension Fund is as follows:

	As at 31 March 2011	As at 31 March 2010
Contributors	6,155	6,157
Deferred pensioners	4,041	3,744
Pensioners and Dependants	5,065	4,951
<b>TOTAL</b>	<b>15,261</b>	<b>14,852</b>

### Employers in the Fund

The other employers in the Pension Fund are as follows:

#### Scheduled bodies

Havering College of Further Education  
Havering Sixth Form College  
Homes in Havering  
Drapers Academy

#### Admitted Bodies

Havering Citizens Advice Bureau  
Morrisons (formerly AWG)  
May Gurney  
Sports & Leisure Management Ltd  
KGB Cleaners

#### Designated Bodies

#### Trust Schools

Hall Mead Secondary School  
Corbets Tey Special School

#### Foundation Schools

Frances Bardsley School for Girls  
Abbs Cross School  
The Chafford School  
Brittons School & Technology College  
The Sanders Draper School  
The Albany School  
The Mawney Primary School

### Voluntary Aided Schools

Campion School  
Sacred Heart of Mary's Girl's School  
St Edwards CE Secondary Comprehensive  
Coopers' Company & Coborn School  
St Alban's Catholic Primary  
St Edwards CE Primary  
St Joseph's RC Primary  
St Mary's RC Primary  
St Patrick's Catholic Primary School  
St Peter's Catholic Primary School  
St Ursula's RC Junior School  
St Ursula's RC Infant School  
La Salette RC Primary School

### Investment Arrangements

The overall direction of the Fund's Investment Strategy is delegated to the Council's Pensions Committee. The Pensions Committee also oversees the Fund's investment arrangements and each year publishes a Statement of Investment Principles (SIP) on the Council's website in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2005.

The Group Director Finance and Commerce supports the Pension's Committee and is responsible for the internal administration arrangements regarding monitoring of the external investment managers' transactions and is also responsible for pension's administration.

Havering Pension Fund appointed five fund managers in February 2005 with specific investment mandates. A review of the funds investment strategy took place during the summer of 2008. The main change resulted in the fund aiming to reduce its asset allocation to Bonds and increase its allocation to Equities. The mandate with the Global Bond's Manager was therefore terminated in August 2008. Given that markets had seen unprecedented volatility and market falls during 2008 some of the intended restructuring was postponed. The markets were monitored during 2009 and the fund carried out a competitive tender process for a Passive Equity Manager and a Multi –Asset Manager. The results of this exercise awarded contracts to State Street (passive equities manager) and Ruffer Investment Company (Multi-asset manager) who commenced trading in September 2010. In September 2010 the Pensions Committee decided to terminate the mandate with the Global Equities Manager (Alliance Bernstein) and assets have been placed with the Passive Equity Manager (State Street Global Assets) until the Pensions Committee consider their next steps. Further strategy implementation (including rebalancing) will be undertaken during 2011/12.

The fund managers and the market value of assets under their management at the 31<sup>st</sup> March 2011 were as follows:

Manager	Mandate	Value	
		£,000	%
Standard Life	UK Equities	91,172	24.12
Alliance Bernstein	Global Equities	150	.04
Royal London	Investment Grade Bonds	105,943	28.03
UBS	Property	20,316	5.38
Ruffer	Absolute Return	18,365	4.86
State Street Global Assets	Passive UK/Global Equities	141,878	37.54
	<b>Sub total</b>	<b>377,824</b>	<b>99.97</b>
	Other	123	.03
	<b>Total Fund</b>	<b>377,947</b>	<b>100.00</b>

The main investment objective is to maximise the overall return on the Pension Fund's investments from income and capital appreciation without high risk and to maintain the ready marketability of the portfolio to meet the Fund's fluctuating cash requirements.

### Performance

Havering Pension Fund uses the services of The WM Company to provide comparative statistics on the performance of this Fund. The performance of the Fund is measured against a tactical and a strategic benchmark. The tactical benchmark is a combination of all the individual benchmarks set for each manager. The strategic benchmark for the overall fund is a liability benchmark of FTSE A Gilts over 15 years plus 2.9% (net of fees) p.a. The main factor in meeting the strategic benchmark is market performance.

In 2010/11, the overall return on the Fund's investments was 6.3% (2009/10 38.2%). This represented an under performance of -1.9% against the tactical benchmark (2009/10 2.5%) and an under performance of -3.3% against the strategic benchmark (2009/10 34.2%).

Following the unprecedented volatility in financial markets in the wake of the credit crunch and economic downturn, there was some considerable recovery during 2009/10. Although Stock market values have risen over the current year the markets are still very volatile.

The longer term performance is as follows:

	3 years to 31.3.10 %	5 years to 31.3.10 %
<b>Fund return</b>	<b>3.1</b>	<b>1.8</b>
Tactical Benchmark	5.8	4.1
<b>Performance</b>	<b>(2.6)</b>	<b>(2.1)</b>
<b>Fund return</b>	<b>3.1</b>	<b>1.8</b>
Strategic benchmark	8.1	6.8
<b>Performance</b>	<b>(4.6)</b>	<b>(4.6)</b>

Pension Fund Account for the year ended 31<sup>st</sup> March 2011

2009/10 £'000		Note	2010/11 £'000
<b>Contributions and benefits</b>			
28,251	Contributions	3	28,337
849	Transfers in	4	4,311
<b>29,100</b>			<b>32,648</b>
(26,926)	Benefits	5	(25,702)
(3,488)	Leavers	6	(1,258)
(636)	Administration	7	(613)
<b>(31,050)</b>			<b>(27,573)</b>
<b>(1,950)</b>	<b>Net additions (withdrawals) from dealings with members</b>		<b>5,075</b>
<b>Returns on Investments</b>			
(1,303)	Investment management expenses	8	(1,282)
11,274	Investment income	9	10,196
89,798	Change in market value of investments	10	14,174
<b>99,769</b>	<b>Net returns on investments</b>		<b>23,088</b>
<b>97,819</b>	<b>Net increase/ (decrease) in the Fund during the year</b>		<b>28,163</b>
262,652	Net assets of the scheme at start of year		360,471
<b>360,471</b>	<b>Net assets of the scheme at end of year</b>		<b>388,634</b>

<b>Net Asset Statement</b>			
31 March 2010 £'000		Note	31 March 2011 £'000
360,440	Investment assets	11	388,686
(78)	Investment Liabilities	11	(164)
460	Current assets	12	413
(351)	Current Liabilities	13	(301)
<b>360,471</b>	<b>Net assets of the scheme at end of year</b>		<b>388,634</b>

The financial statement summarise the transactions of the scheme and the net assets of the fund. They do not take account of obligations to pay pensions and other benefits which fall due after the financial year end. The actuarial position of the scheme which does take account of such obligations, is shown within notes 41 to 43 and these financial statements should be read in conjunction with them.

I certify that the Pension Fund Account and Net Assets Statements present a true and fair view of the income and expenditure in 2010/11 and the Pension Fund's financial position as at 31st March 2011.

**Andrew Blake-Herbert, CPFA**  
**Group Director Finance and Commerce**  
**Date: 29 June 2011**

## Notes to the Pension Fund

### 1. Basis of Preparation

The Financial Statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a statement from the auditor) Regulations 1996, and with guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007).

A proportion of relevant officers' salary costs, including related on costs, has been charged to the Fund.

Stock lending is only permitted by the Fund's passive equity manager State street, on the basis that they have agreed to indemnify the fund against any loss arising from insufficient collateral being posted as part of the stock lending programme.

### 2. Accounting Policies

The Financial Statements have been prepared on an accruals basis but transfer values are included on a cash basis in accordance with the SORP.

Normal contributions are recognised when they are deducted from payroll for employee contributions. Employer contributions are recognised on the same basis. Employer augmentations are recognised in accordance with the agreement under which they are paid, or in the absence of an agreement on a receipts basis.

Investments are valued at the bid price at the year end date with any surplus or deficit on valuation being debited/ credited to the Fund account.

Holding derivatives is permitted within the relevant fund manager mandate.

Future contracts are valued at the exchange price for closing out the contract at the year end date and this represents the unrealised profit or loss of the contract.

Forward foreign exchange contracts are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and in the financial statements at rates ruling on the 31st March.

Investment income is taken into account where dividends are declared but not paid at the financial year end.

## 3. Contributions

	2010/11 £'000	2009/10 £'000
<b>Employers</b>		
<b>Normal:</b>		
Havering	13,057	13,239
Scheduled Bodies	2,072	1,939
Admitted Bodies	560	568
<b>Deficit funding:</b>		
Havering	5,734	5,305
<b>Augmentation:</b>		
Havering	311	650
Scheduled Bodies	63	57
Admitted Bodies	2	71
<b>Employer Total</b>	<b>21,799</b>	<b>21,829</b>
<b>Members</b>		
<b>Normal:</b>		
Havering	5,506	5,395
Scheduled bodies	723	690
Admitted bodies	160	167
<b>Additional contributions:</b>		
Havering	127	149
Scheduled bodies	21	19
Admitted bodies	1	2
<b>Members Total</b>	<b>6,538</b>	<b>6,422</b>
	<b>28,337</b>	<b>28,251</b>

**Note:** Some employees made additional voluntary contributions (AVC's) of £99,053 (£83,256 09/10) excluded from the statements. These are deducted from the payroll and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2010/11 were £72,366 to the Prudential and £26,687 to Standard Life. These amounts are not included in the Pension Fund Account in accordance with regulation 5[2] c of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831).

## 4. Transfers In

	2010/11 £'000	2009/10 £'000
Individual transfers in from other schemes	4,311	849

## 5. Benefits

	2010/11 £'000	2009/10 £'000
<b>Pensions</b>		
Havering	20,766	20,426
Scheduled Bodies	327	269
Admitted Bodies	197	106
<b>Pension Total</b>	<b>21,290</b>	<b>20,801</b>
<b>Commutation &amp; Lump Sum Retirements</b>		
Havering	3,426	4,732
Scheduled Bodies	360	219
Admitted Bodies	128	426
<b>Commutation Total</b>	<b>3,914</b>	<b>5,377</b>
<b>Lump sum death benefits</b>		
Havering	161	748
Scheduled Bodies	165	0
Admitted Bodies	172	0
<b>Death Benefits Total</b>	<b>498</b>	<b>748</b>
	<b>25,702</b>	<b>26,926</b>

## 6. Payments To and On Account of Leavers

	2010/11 £'000	2009/10 £'000
Refunds to members leaving service	1	5
Individual transfers to other schemes	1,257	3,483
	<b>1,258</b>	<b>3,488</b>

## 7. Administrative expenses

	2010/11 £'000	2009/10 £'000
Administration & Processing	499	568
Actuarial Fees	63	14
Audit Fees	35	35
Other Fees	6	6
Other Expenses	10	13
	<b>613</b>	<b>636</b>

## 8. Investment Management Expenses

	2010/11 £'000	2009/10 £'000
Administration, management and custody	1,224	1,224
Performance measurement services	11	11
Other Advisory Fees	47	68
	<b>1,282</b>	<b>1,303</b>

**9. Investment Income**

	2010/11 £'000	2009/10 £'000
Income from Fixed Interest Securities	4,702	4,873
Dividends from equities	4,419	5,157
Income from pooled vehicles	617	915
Cash & Deposits	128	53
Other	117	13
<b>Other Income</b>		
Foreign Exchange Profits/(Losses)	213	263
<b>Total Income</b>	<b>10,196</b>	<b>11,274</b>

**10. Investments**

	Value at 31 March 2010	Restated Value at 31 March 2010	Purchases at cost and derivative payments	Sales Proceeds and derivative receipts	Change in Market Value	Cash & Other Movements	Value at 31 March 2011
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equities	204,403	204,403	93,987	(91,218)	(913)	(110,121)	96,138
Derivatives	(78)	(78)	0	0	(80)	(6)	(164)
Fixed interest Securities (*)	78,815	78,836	109,460	(114,592)	2,430	0	76,134
Index-linked Securities	28,271	28,250	211,670	(204,968)	2,303	0	37,255
Pooled Investment Vehicles	31,891	31,891	2,454	(11,045)	10,563	131,902	165,765
Cash instruments	450	450	7,942	(8,392)	0	0	0
Cash deposits (fund managers)	4,280	4,280	0	0	(11)	(1,614)	2,655
	<b>348,032</b>	<b>348,032</b>	<b>425,513</b>	<b>(430,215)</b>	<b>14,292</b>	<b>20,161</b>	<b>377,783</b>
Cash deposits (banks)	6,300	6,300				(6,300)	0
Short term investments	4,763	4,763				3,732	8,495
Other Investment Balances	1,267	1,267			(118)	1,094	2,243
	<b>360,362</b>	<b>360,362</b>	<b>425,513</b>	<b>(430,215)</b>	<b>14,174</b>	<b>18,687</b>	<b>388,521</b>

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

The cash and other movements include assets that were transferred between fund managers as part of the investment restructuring.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year as supplied by the Fund's custodian amounted to £564,898 (2009/10 £459,270). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

## 11. Investments

	2010/11 £'000	Restated 2009/10 £'000
<b>Equities</b>		
UK Quoted	90,970	127,865
Overseas quoted	5,168	76,538
	<b>96,138</b>	<b>204,403</b>
<b>Fixed Interest Securities</b>		
UK Public	10,963	20,512
UK Private	58,527	56,569
Overseas Public (*)	6,644	1,332
Overseas Private (*)	0	423
	<b>76,134</b>	<b>78,836</b>
<b>Index-Linked Securities</b>		
UK Public	33,690	26,581
UK Private	564	761
Overseas Public (*)	3,001	908
Overseas Private (*)	0	0
	<b>37,255</b>	<b>28,250</b>
<b>Derivative Contracts</b>		
Futures	0	6
Forward FX Contracts	(164)	(84)
	<b>(164)</b>	<b>(78)</b>
<b>Pooled Investment Vehicles</b>		
<b>UK Managed Funds - Other</b>		
UK Quoted	146,141	2,209
UK Unquoted	19	46
Overseas	0	8,877
Property	1,084	3,197
<b>UK Unit Trust</b>		
UK Property	18,521	17,562
	<b>165,765</b>	<b>31,891</b>
<b>Cash Instruments</b>		
UK	0	450
	<b>0</b>	<b>450</b>
<b>Cash Deposits</b>		
Managers	2,655	4,239
Futures Cash commitment	0	41
	<b>2,655</b>	<b>4,280</b>
<b>Cash Deposits</b>		
Banks	0	6,300
	<b>0</b>	<b>6,300</b>
<b>Short Term Investments</b>		
L.B. of Havering	8,495	4,763
	<b>8,495</b>	<b>4,763</b>

## 11. Investments (continued)

	2010/11 £'000	2009/10 £'000
<b>Other Investment balances</b>		
Outstanding Sales	1,439	1,017
Investment income	1,504	1,658
Outstanding dividend and recoverable withholding tax	568	899
Outstanding Trades	(1,266)	(2,307)
Investment Income	(2)	0
	<b>2,243</b>	<b>1,267</b>
<b>Total Investments</b>	<b>388,521</b>	<b>360,362</b>

(\*) Reclassification of asset from a Fixed Interest security to Index linked Security as shown below:

	Restated 09/10 £000's	Original 09/10 £000's	Movement £000's
<b>Fixed Interest Securities</b>			
Overseas Public	1,332	1,568	(236)
Overseas Private	423	166	257
	<b>1,755</b>	<b>1,734</b>	<b>21</b>
<b>Index Linked Securities</b>			
Overseas Public	908	672	236
Overseas Private	0	257	(257)
	<b>908</b>	<b>929</b>	<b>(21)</b>

## 12. Current Assets

	2010/11 £'000	2009/10 £'000
Pension Grants	17	16
Contributions due from Employers	312	345
Contributions due from members interest	84	85
	0	14
<b>Current Assets</b>	<b>413</b>	<b>460</b>

## 13. Current Liabilities

	2010/11 £'000	2009/10 £'000
Unpaid Benefits	(87)	(17)
Accrued Expenses	(214)	(334)
<b>Current Liabilities</b>	<b>(301)</b>	<b>(351)</b>

#### 14. Related Party Transactions

There were no transactions with related parties other than those disclosed elsewhere within the accounts. During the year fees were paid to certain trustees for their services to the scheme. In 2010/11, £0.499m was paid to the Council for administration (£0.568m in 2009/10) and £19.102m (£19.194m in 2009/10) was paid by the Council to the Pension Fund in respect of employer's contributions. During the year no Member or Council officer with direct responsibility for pension fund issues has undertaken any declarable material transactions with the Pension Fund.

#### 15. Actuarial Valuation

The Fund is subject to actuarial valuation every three years. The actuary is required to specify the employers' rates of contributions to the Fund to ensure that present and future commitments can be met.

The rate of employer's contributions paid by the Council in 2010/11 was 22% of pensionable pay as determined by the actuarial valuation of the Fund as at the 31st March 2007.

The most recent valuation of the Fund was carried out at the 31<sup>st</sup> March 2010.

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

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

The key financial assumptions adopted for the 2010 valuation were as follows:

Assumptions	Rate
Discount Rate for Period	6.3%
Pay increases *	4.8%
Price inflation/Pension increases	3.3%
Valuation of assets	Market Value

\* Plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% for 10/11 11/12 and 12/13, 3.3% for 13/14 and 14/15 before reverting to 4.8% thereafter.

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2010. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	24.6 years
Future Pensioners *	23.8 years	26.5 years

\* Future pensioners are assumed to be age 45 currently

The value of the Fund's assets was actuarially assessed as £360.9m, as part of the 2010 valuation, which was sufficient to meet 61.3% of its accrued liabilities of £588.6m. In order to meet 100% of future benefit liabilities, as required by Pension Fund regulations, it has been necessary to set the employers' contribution for the Council in line with the actuary's recommended employer's contribution rates as follows:

	Future Service %	Past Service %	Total % of Pensionable Pay
April 11 to March 12	15.6	6.4	22.0
April 12 to March 13	15.6	6.4	22.0
April 13 to 14	15.6	6.4	22.0