HAVERING PENSION FUND

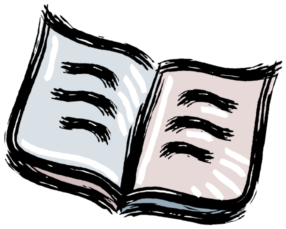
ANNUAL REPORT

MARCH 2011

<u>Pensions Regulator Registration Number 10027841</u>

Finance & Procurement
Town hall
Main Road
Romford, Essex, RM1 3BB

Tel: 01708 432217
Fax: 01708 432162



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TRUSTEE REPORT

Foreword to the Third Annual Report of the Havering local Government Pension Fund for the year ended 31st March 2011

During the year the Pensions Committee dealt with several key issues, which are listed on page 26 of the report and its members attended a number of associated training and development seminars, which are similarly listed on page 25.

In addition to highlighting the work of the Pensions Committee, an overview of the activities of the Pension Administration team is contained on pages 8 -9 of the report.

A new actuary was appointed in March 2010 who commenced work in April and his first task was to provide a valuation, as at 31st March 2010, of the fund's liabilities and of its funding requirement to meet those future liabilities. The actuary's report which determines the employer's contributions to be paid into the fund for the three years commencing 1st April 2011 was presented to members in February 2011.

During the course of monitoring the performances of the various investment asset classes, it was noted that the market values of the different asset classes were out of line with their respective target values. It was therefore decided to re-balance the managers' portfolios. In December the Committee decided to terminate the contract of Alliance Bernstein, Global Equity Manager.

The value of the Fund as at 31st March 2011 was £389m, a significant increase on the previous year end valuation of £360m. The fund is invested in shares issued by companies listed on the stock exchange and on foreign exchanges and also in bonds, property funds and in cash.

The overall return on the Fund's investments (over the year growth of the fund expressed in percentage terms) was 6.3%. Further information on the fund's investment performance can be found on page 17 of this report.

Following the unprecedented volatility in the financial markets, in the wake of the economic downturn and the consequent credit crunch there was a substantial recovery in share price during 2009/10 but that rate of recovery was not sustained and although share prices did rise in 2010/11, stock markets are still very volatile and the future is uncertain.

As part of the continuing review of public expenditure the Government has consulted and continues to consult on changes on public pensions and members' concerns of what the future holds for them personally, is understandable and there is sympathy for those concerns One hopes that in spite of the continuing volatility of the world's stock markets, the pressures on the UK economy and the possible disintegration of the European Monetary Zone that it will be possible for them to find a solution that can be accepted as fair by public sector employees and also by those in the private sector, many of whom have seen their own pension prospects severely damaged, and in some cases, disappear entirely and who ultimately underwrite public sector pensions through taxation.

I trust that this report is both clear and informative to fund members and for the general public, but should clarification be required, or comment made, contact details are shown on page 39.

Eric Munday
Chairman – Pensions Committee

INTRODUCTION

The Council is an Administering Authority and operates a pension fund on behalf of its employees and pensioners under the provisions of the Local Government Pension Scheme Acts and Regulations. The Pension Fund is called the Havering Pension Fund (the ‘Fund’).

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.

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

Scheme Details

The new look pension scheme came into force for all active members and potential members of the Local Government Pension Scheme on 1 April 2008.

The current Local Government Pension Scheme (LGPS) is a final salary scheme with pensions payable being based on the best of the last three years pensionable pay and the number of years of reckonable service. Pensions are increased annually in line with the Consumer Price Index unless retirement occurred on the grounds of Redundancy or Efficiency before age 55, in which case, any increase is payable from age 55.

The scheme also pays a death benefit in the form of a lump sum and a pension to the spouse, civil partner, or nominated cohabitee of a member who dies in service. A dependant’s pension is generally also paid to the spouse, civil partner or nominated cohabitee of a member who dies after retirement, or with a deferred pension.

All council employees who have a permanent or temporary contract of 3 months or more (except teachers), automatically join the fund from the first day of employment. Any member of the scheme can opt out by notifying the pension’s office in writing.

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

SCHEME MANAGEMENT AND ADVISORS

The overall direction of the funds investment strategy is delegated to the Council's Pension Committee. Performances of the six different managers, who have specific mandates, are measured against agreed benchmarks for each mandate.

The Pensions Committee also obtains and considers advice from the authority's officers, and as necessary from the Fund's appointed investment adviser, actuary and performance measurers who also attend meetings as and when required.

The Fund also appoints a custodian for the safekeeping of the scheme's asset, such as holding share and bond certificates and cash. The custodian also puts together reports on the accounting value of assets held.

Day to day management of the fund is delegated to the Group Director Finance and Commerce.

The Pensions Committee met 6 times during 2010/11, including a special meeting to discuss the outcome of the Actuary's Valuation Report and the implications for the Investment Strategy. More detailed information can be found in the Governance Compliance Statement section of this report.

The membership of the Pensions Committee reflects the political balance of the Council and the structure of the Pensions Committee members during April 2010 and up to the time of the Local Government Elections in May 2010 were as follows:

Cllr Robby Misir (Chairman) – Conservative Group
Cllr Eric Munday (Vice Chairman) - Conservative Group
Cllr Melvin Wallace – Conservative Group – Conservative Group
Cllr Robert Benham – Conservative Group
Cllr Clarence Barrett – Residents Group
Cllr Linda van den Hende – Residents Group
Cllr Jeffrey Tucker – Independent Local Residents Group
Union Members (Non Voting) – John Giles (Unison), Sean Ramsden (UNITE)
Admitted/Scheduled Body Representative (Non voting) - David Holmes – Havering College of Further and Higher Education

Following the Local government elections in May 2010 the membership of the committee changed to the following:

Cllr Eric Munday (Chairman) – Conservative Group
Cllr Damian White (Vice Chairman) – Conservative Group
Cllr Melvin Wallace – Conservative Group
Cllr Roger Ramsey– Conservative Group
Cllr Ron Ower – Residents Group
Cllr Denis Breading – Labour Group
Cllr Jeffrey Tucker – Independent Local Residents Group
Union Members (Non voting) - John Giles (Unison), Vacant (UNITE)
Admitted/Scheduled Body Representative (Non voting) - David Holmes – Havering College of Further and Higher Education

The terms of reference for the Pensions Committee are:

- To consider and agree the investment strategy and statement of investment principles for the pension fund

- To authorise the invitation of tenders and the award of contracts for actuaries, advisers and fund managers or other related investment matters (where not covered by existing delegation arrangements)
- To appoint and review the performance of advisers and investment managers for pension fund investments
- To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities)(England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7, 12 or 24 of the Superannuation Act 1972

Fund Administrator	London Borough of Havering, Town Hall, Romford, RM1 3BD
Fund Actuary	Hymans Robertson from 1 April 2010
Auditors	PricewaterhouseCoopers LLP (PwC)
Custodians	State Street Global Services
Investment Managers	Standard Life Investments (UK Equities) Royal London Asset Management (Investment Bonds) Alliance Bernstein Institutional Investors until February 2011 (Global Equities) UBS (Property) Ruffer LLP (Multi Asset) from September 2010 State Street (Passive UK/Global Equities) from September 2010
Investment Advisers	Hymans Robertson
Legal Advisers	London Borough of Havering Legal Services provide legal advice as necessary (specialist advice is procured as necessary)
Bankers	National Westminster Bank PLC
Performance Measurement	WM Company
AVC Providers	Prudential and Standard Life
Director of Finance and Commerce	Andrew Blake Herbert
Pension Fund Accountant	Debbie Ford
Independent Advisors	None

Employers in the Fund are as follows:

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

Scheduled bodies

- Havering College of Further Education
- Havering Sixth Form College
- Homes in Havering
- Drapers Academy (Academy from 1 September 11)
- Abbs Cross School (Academy from 1 April 11)
- Brittons School & Technology College (Academy from 1 April 11)
- Coopers’ Company & Coborn School (Academy from 1 April 11)

- Hall Mead Secondary School (Academy from 1 August 11)
- The Albany School (Academy from 1 August 11)
- Campion School (Academy from 1 August 11)
- Sacred Heart of Mary's Girl's School (Academy from 1 August 11)
- St Edwards CE Secondary Comprehensive (Academy from 1 August 11)
- Reddon Court (Academy from 1 September 11)
- Marshall Park (Academy from 1 September 11)
- Emerson Park (Academy from 1 September 11)

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

Designated Bodies:

Trust Schools
- Corbets Tey Special School

Foundation Schools
- Frances Bardsley School for Girls
- The Chafford School
- The Sanders Draper School
- The Mawney Primary School

Voluntary Aided Schools
-
- 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

MANAGEMENT PERFORMANCE

Pension Services Local Performance Indicators 2010/11

INDICATOR	What is it an indicator of	Actual 2010/11	Target 2010/11
The percentage of retirements processed within 5 working days	The percentage of retirement payments processed within 5 working days of the employee retiring or receipt of all relevant information. This indicator measures effectiveness through service delivery and is a standard throughout Local Government.	69.62%	95%
The percentage of early retirement estimates processed within 10 working days	To produce estimates for early retirements i.e. ill healths, redundancies and voluntary retirements within 10 working days of request, normal retirement date or receipt of all relevant information. This indicator is particularly important to service clusters.	88.30%	91%
The percentage of Notification of deferred benefits within 15 working days	To notify members who have left their job (or one of their jobs) of the deferred benefits that they have accrued at the point of leaving within 15 days of all relevant information.	39.33%	60%
The percentage of 'Transfers In' actuals processed within 15 working days	The percentage of transfers in with the members' record updated with the transferred in information.	15%	80%
The percentage of 'Transfers Out' actuals processed within 15 working days	The percentage of transfers out paid to the new pension provider.	73.17%	80%
The percentage of 'death' notifications written out to within 5 days of receipt of all information received	The percentage of deaths with notification of benefits.	77.42%	95%
The percentage of joiners processed within 10 working days of information received	The percentage of joiners records set up on AXIS.	80.77%	70%
The percentage of expression of wish and nomination forms processed within 10 working days of receipt	The percentage of forms set up within 10 working days of receipt of all relevant information.	92.85%	96%
Accurate calculation of benefit figures first time	The accuracy of first time benefit calculations at the checking stage. A quality measure to ensure customers receives correct payments at the earliest opportunity. This indicator can be directly controlled by Pension Staff.	97.03%	97%

The administration of the Pension section is split between two teams, the Benefits Team and the Member Record Maintenance Team. The Pension Service Local Performance Indicators represent the main core of the benefits team output but do not cover all the calculations carried out by this team. The indicators do not include a substantial amount of work carried out by the record maintenance team. It is acknowledged that performance levels were not achieved with the following factors affecting the section's performance.

Retention and recruitment of staff

- There have been two retirements, one being a full time experienced Pensions Officer (Post vacant from March – July 2010).
- An existing part time Pensions Officer filled the above post resulting in a Part time Pensions Officer vacancy (July 2010 – January 2011).
- A long-term sickness absence.
- An internal review of the Pensions Administration was undertaken during 2009/10 and it was agreed that the section could recruit two additional posts. However, it was not possible to recruit to these posts in 2010/2011.

Office Move and New Ways of Working

- The Pension section moved to imaged files from hard copy files. This commenced at the end of 2009/2010 and continued into the first quarter of 2011. There have been system problems and the process is resource heavy.
- In July 2010 the section moved to Romford Library where the pension team were required to adapt to "New Ways of Working". This focussed on the reduction of paper and the use of an Electronic Document Management system "Civica". The change over has caused a delay in processing cases and a temporary solution for viewing files has been put in place. Established working processes have been reviewed and adapted to accommodate new ways of working which included the scanning and indexing of a substantial amount of paperwork.
- Towards the end of 2010/2011 the section needed to further review processes with the planned introduction of Internal Shared Services and the New Oracle Payroll and System.

Changes to the Local Government Pension (LGPS) Regulations and State Retirement Age for Women

Amendments to the LGPS Regulations were constant, particularly in respect of transfers of pension benefits and how they should be calculated. In addition to this the change from Retail Price Index to Consumer Price Index caused complications and resulted in backlogs of transfers as schemes were advised to put a freeze on non club transfers. Central Government also changed the State Retirement Age for Women on a phased basis which impacted on the work and processes of the benefits team.

Local Government Funding Cuts

All Local Authorities are under pressure to make huge financial savings. Several areas of the authority have been reviewed and restructured. This impacts the Pension section in two ways:-

- High demand from employees for information and guidance in respect of their pension benefits should they decide to retire earlier than they initially planned or be made redundant

- High demand from service areas for Redundancy and Early Retirement Estimates as well as guidance in the options available.

With all the above pressures the pension section has been committed to providing a good quality pension service for stakeholders in particular scheme members. Whilst the performance levels were not achieved the number of complaints has been minimal.

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

	As at 31 March 2011	As at 31 March 2010	As at 31 March 2009	As at 31 March 2008	As at 31 March 2007
Contributors	6,155	6,157	5,723	5,803	5,664
Deferred pensioners	4,041	3,744	3,463	3,094	2,762
Pensioners and Dependants	5,065	4,951	4,746	4,587	4,468
	15,261	**14,852**	**13,932**	**13,484**	**12,894**

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

	As at 31 March 2011	As at 31 March 2010	As at 31 March 2009	As at 31 March 2008	As at 31 March 2007
Ill Health	12	8	14	11	12
Early Retirements	91	0	0	0	0

The age profile of members with five year bandings for the year ended 31 March 2011 follows:

AGE BANDS	ACTIVES	DEFERREDS	PENSIONERS (OWN RIGHT)	DEPENDANT PENSIONS	TOTAL BY AGE BAND
5-9	0	0	0	3	**3**
10-14	0	0	0	8	**8**
15-19	27	3	0	10	**40**
20-24	153	87	0	7	**247**
25-29	258	221	0	0	**479**
30-34	349	252	0	1	**602**
35-39	575	442	3	6	**1,026**
40-44	995	708	4	3	**1,710**
45-49	1,291	835	11	9	**2,146**
50-54	1,115	770	51	17	**1,953**
55-59	872	623	144	27	**1,666**
60-64	438	94	936	55	**1,523**
65-69	74	5	985	73	**1,137**
70-74	8	1	739	84	**832**
75-79	0	0	622	156	**778**
80-84	0	0	462	151	**613**
85-89	0	0	215	129	**344**
90-94	0	0	72	49	**121**
95-99	0	0	19	11	**30**
100-104	0	0	0	2	**2**
105-109	0	0	1	0	**1**
TOTAL	**6,155**	**4,041**	**4,264**	**801**	**15,261**

Contributions to the Fund

Employees who were eligible to be members of the scheme prior to 31 March 1998 were required to make contributions by deductions from earnings at the rate of 6% for officer staff and 5% for manual staff. As from 1 April 1998, all new entrants to the fund were required to pay 6% of earnings.

With effect from 1st April 2008 instead of paying a standard contribution rate, as mentioned above, different contribution rates for different pay bands was introduced. These new rates have been designed to give more equality between the cost and benefits of scheme membership. The new rates are between 5.5% and 7.5% of pensionable pay. The rate paid depends on which pay band the member falls into.

The Council is required to make balancing contributions determined by the Fund's actuary (Hewitt Bacon and Woodrow at the time of the 2007 valuation) to maintain the solvency of the Fund. The employers' contribution for the London Borough of Havering employees was 22% of salary in 2010/2011 (2009/10 21.8%). The Council's annual contribution is reviewed every three years. The latest review was based on data as at 31st March 2010 and will effect employer contribution rates for 2011/12, 2012/13 and 2013/14. The next valuation will take place during 2013 and will be based on data as at 31 March 2013.

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

Contributing employers	Active Members	Contributions from Members £	Contributions from Employers £
London Borough Havering (including schools – non teaching staff only)	5,512	5,633,620	19,102,358
Homes in Havering	165	321,853	1,056,166
Havering College of Further & Higher Education	250	324,141	810,408
Havering sixth form college	71	70,369	171,566
Sports & Leisure Management	67	66,069	177,387
Morrisons	47	89,243	365,058
Drapers Academy	39	27,759	96,555
Citizens Advice Bureau	2	5,283	18,108
May Gurney	1	1,230	5,703
KGB Cleaners	1	381	1,612
Catering for Education (ceased)	0	-1,501	-5,557
TOTAL	**6,155**	**6,538,447**	**21,799,364**

The payment of contributions is monitored on a monthly basis by Pensions Administration. The Council receives a breakdown of individual employee contributions which is reconciled against the payments. A service manual is distributed to all employers which explains their obligation as an employer in the fund. All employers are required to purchase a bond which protects the fund against default payments.

All employee and employer contributions due to the pension fund from each of the employers were paid on time and therefore there was no requirement to make any interest charges.

INVESTMENT POLICY AND PERFORMANCE REPORT

INVESTMENT POLICY

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.

The Council has in place an Investment Strategy, which consists of two documents – The Statement of Investment Principles and the Funding Strategy Statement.

Statement of Investment Principles - The Fund each year publishes a Statement of Investment Principles (SIP) on the Councils web site in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2005. This Statement sets out the council's policy on a range of matters relating to investments and management of the pension fund. This is produced in conjunction with the Fund's investment advisors. A copy of the SIP can also be found in the appendices attached to this report.

Funding Strategy Statement – Each year the fund also publishes a Funding Strategy Statement (FSS) in accordance with Regulation 76A of the LGPS Regulations 1997. This encompasses the aims and purposes of the fund and the overall investment strategy with its main purpose being how the pension liabilities are best met going forward. This is produced in conjunction with the Fund's actuary. A copy of the FSS can also be found in the appendices attached to this report.

The Fund appointed five active fund managers in February 2005 with specific investment mandates. A review of the Fund's investment strategy took place during the spring/summer of 2008 following an asset liability study undertaken by the Fund's advisors. 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 Bonds' 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 December 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 six fund managers and the market value of assets under their management at the 31st March 2011 were as follows:

Manager	Mandate	Value £'000	Proportion of Total Fund %
Standard Life	Active UK Equities	91,172	24.12
Royal London	Active Investment Grade Bonds	105,943	28.03
UBS	Active Property	20,316	5.38
Ruffer	Absolute Return	18,365	4.86
State Street Global Assets	Passive UK/Global Equities	141,878	37.54
Alliance Bernstein	Active Global Equities	150	.04
	Sub total	**377,824**	**99.97**
	Other	123	0.03
	Total Fund	**377,947**	**100.00**

The Fund uses the services of State Street Bank who are the Fund's appointed custodians. They operate a wide range of services but are mainly responsible for the safekeeping and custody of the fund assets and are responsible for Investment Accounting and Reporting. They ensure that accurate records and certificates of the ownership of stock are maintained and ensure that dividend income and other distributions are received appropriately. They also keep a record of the book costs in the various asset classes and provide a market valuation of the Fund. It is State Street's records that are used to produce the Fund's accounts.

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

Fund Manager Performance is reported to the Pensions Committee on a quarterly basis. Managers are required to present at the Pensions Committee every six months. On alternate quarters fund managers meet with officers for a formal monitoring meeting. The exception to this procedure is the multi asset (Ruffer) and the passive equity (SSGa) managers who will attend two meetings per year, one with officers and one with the Pensions Committee. If there are any specific matters of concern to the committee relating to the manager's performance, arrangements can be made for additional presentations.

The Fund's investment adviser attends the quarterly Pensions Committee meetings and also produces a quarterly report, including fund manager performance and market commentary.

Voting rights exercised by the fund managers are included in their quarterly reports and these are made available for the Pensions Committee to consider.

ASSET ALLOCATION

The main investment objective is to maximise the overall return on the 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.

The asset allocation adopted as part of the review that took place during the spring/summer of 2008 compared to asset allocation as at 31 March 2011 is as follows:

Asset Class	Revised Target Allocation as per SIP post Sep 2008 %	Asset Allocation As at 31 March 2011 %	Asset Allocation As at 31 March 2010 %	Asset Allocation As at 31 March 2009 %
UK Equities	30	28	34	27
Global Equities	30	32	28	25
Investment Grade Bonds	25	28	30	34
Property	10	5	5	7
Multi Asset (All classes)	5	5	0	0
Cash	0	2	3	7

Given that the markets had seen unprecedented volatility and markets falls during the 2008/09 some of the intended restructuring was postponed until markets improved. During 2008/09 the fund was consciously holding a significant amount of cash as a more stable investment. This was in line with the Statement of Investment Principles which gives flexibility of permitting members to deviate from the long term strategy during volatile market conditions.

The overweight position in Bonds during 2009/10 was due to the pending appointment of an Alternative Asset manager. The reduction in the bonds weighting will fund the alternatives (Absolute Return mandate).

Further rebalancing of the asset allocation split will be ongoing during 2011/12.

Largest 10 Direct Asset Holdings in the Fund:

	Market Value at 31 March 2011 £m	Proportion of the total investment of the fund %
UK Treasury Index Linked Gilt - matures 2027	9.90	2.62
Rio Tinto PLC	6.19	1.64
BP PLC	6.16	1.63
HSBC Holdings PLC	5.85	1.55
Vodafone Group PLC	4.98	1.32
Xstrata PLC	4.47	1.18
Glaxosmithkline PLC	3.94	1.04
UK Treasury Index Linked Gilt - matures 2017	3.49	0.92
UK Treasury Index Linked Gilt - matures 2037	3.34	0.88
UK Treasury Index Linked Gilt - matures 2032	3.17	0.84
Total	**51.49**	**13.62**

Largest 10 Equity Holdings in the Fund:

	Market Value at 31 March 2011 £m	Proportion of the total investment of the fund %
Rio Tinto PLC	6.19	1.64
BP PLC	6.16	1.63
HSBC Holdings PLC	5.85	1.55
Vodafone Group PLC	4.98	1.32
Xstrata PLC	4.47	1.18
Glaxosmithkline PLC	3.94	1.04
Royal Dutch Shell PLC	2.99	0.79
Barclays PLC	2.73	0.72
BG Group PLC	2.66	0.70
Lloyds Banking Group PLC	2.61	0.69
Total	**42.58**	**11.26**

In addition to the above holdings the Fund also invests in the UBS Triton Property Fund. This is a pooled property fund which means that the Fund pool their assets with other investors in ‘unit trusts’, the Fund does not hold any direct property holdings. The value of the property unit trusts as at 31 March 2011 is £18.5m. The fund also invests in a pooled UK and Global equity fund, the value of which is £141.88m.

INVESTMENT PERFORMANCE

The Fund uses the services of The WM Company to provide comparative statistics on the performance of the 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 and is determined according to the type of investments being managed.

Individual manager performance and asset allocation will determine the performance against the strategic benchmark. 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. The main factor in meeting the tactical benchmark is fund manager performance.

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

	1 year to 31.03.10 %	1 year to 31.03.11 %	3 Years to 31.3.11 %	5 years to 31.3.11 %
Fund Return	38.2	6.3	3.1	1.8
Tactical Benchmark	34.8	8.3	5.8	4.1
Performance	2.5	-1.9	-2.6	-2.1
Fund Return	38.2	6.3	3.1	1.8
Strategic Benchmark	2.9	9.9	8.1	6.8
Performance	34.2	-3.3	-4.6	-4.6

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

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 out performance of 2.5%) and an under performance of -3.3% against the strategic benchmark (2009/10 outperformance of 34.2%).

Although Stock market values have risen over the year the markets are still very volatile.

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

Manager and percentage of total Fund awarded	Mandate	Tactical Benchmark	Out performance Target (net of fees)
Standard Life	UK Equities (Active 20%)	FTSE All Share Index	2%
State Street Global Advisors (Account 1)	UK/Global Equities (Passive 15%)	UK - FTSE All Share Index Global (Ex UK) – FTSE all World ex UK	To track the benchmark
State Street Global Advisors (Account 2)	UK/Global Equities (Passive 25%)	UK - FTSE All Share Index Global (Ex UK) – FTSE all World ex UK	To track the benchmark
Royal London Asset Management (RLAM)	Investment Grade Bonds (Active 25%)	• 50% iBoxx Sterling Non Gilt Over 10 Year Index. • 16.7% FTSE Actuaries UK Gilt Over 15 Years Index • 33.3% FTSE Actuaries Index-Linked Over 5 Year Index	0.75%
UBS	Property (10%)	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Ruffer LLP	Alternatives- Multi Asset (5%)	UK bank deposit rate	To outperform the benchmark

The following table compares each fund manager performance against their specific benchmark and their performance target for the twelve months ending 31 March 2011:

	Standard Life	Royal London	UBS
Return (performance)	5.1	8.3	10.7
Benchmark	8.7	6.5	8.9
***Over/(Under) Performance vs. Benchmark**	**-3.3**	**1.7**	**1.8**
TARGET	10.7	7.3	n/a
*** Over/(Under) Performance vs. Target**	**-5.2**	**1.0**	**n/a**

**The figures in the above table are geometric calculations and consequently may not sum.*

Please note that Ruffer and State Street commenced trading in September 2011 therefore twelve months data is not available.

Performance against benchmark is measured at Fund Manager level only. Performance is not measured against the asset classes as mandates allocated to fund Managers mostly match the asset classes.

SCHEME ADMINISTRATION REPORT

OVERVIEW

The Pensions Committee is supported by the administrating authorities' finance and administration services and the associated costs are therefore reimbursed to the administrating authority by the Fund. The costs for these services form part of the Administrative and Investment Management expenses as reported in the Pension Fund Statement of Accounts.

The Administration cost charged to the Fund for the year ending 31 March 2011 is £613,069 (includes audit and actuary fees).

The Council's pension administration section is responsible for all aspects of scheme membership including payment of benefits, processing joiners and leavers and administration of the Council's Additional Voluntary Contributions (AVC) scheme.

The Pensions Administration service consists of an establishment of 9.6 full time equivalent posts, although not all posts are recruited to.

The key day to day functions of the unit are:

- Processing new members of the scheme
- Dealing with requests from members who wish to transfer their pension into or out of Havering's fund
- Administering death benefits for scheme members
- Bringing pensions into payment on retirement or early retirement
- Providing estimates for members/managers
- Assisting members who wish to increase their pension provision through AVC's or ARCs (replaces added years and is to provide added pension)
- Processing leavers with a refund of contributions or deferred benefits
- Updating the pensions computer system with changes to members details

The Finance service that supports the pension fund consists of an establishment of 1.5 full time equivalent posts.

Havering has continued to have a close working relationship with the London of Redbridge.

Havering is leading on the work agreed as part of the London Centre of Excellence project, on the production of performance indicators (PIs) for Pensions Administration across London. The PIs were collected for the first time in 2007/08 and Havering has been co-ordinating all the statistics to produce an inaugural London wide picture on performance in Pensions Administration.

Havering has also undertaken partnership working with the London Pension Fund Authority who has developed a "pension scheme members" website for the borough, to assist in its pension sharing across London. This website holds information on the Local Government Pension scheme including previous newsletters, a scheme guide and various factsheets. The website was launched in spring of 2011 via a newsletter to all scheme members.

Internal Dispute Resolution procedure (IDRP)

Any Internal disputes go before the Pensions Panel which comprises of Heads of Services from Human Resources, Finance and Legal. The Head of Service responsible for Pensions Administration sits on the panel in an advisory role.

The outstanding case from 2009/10 was referred back to Occupational Health for a review of the individuals' health, and early payment of benefits on the grounds of permanent incapacity was advised.

There have been no cases that have been through the IDRP process in 2010/11.

Whistle Blowing

The Pension fund complies with the whistle blowing requirements of the pension act that came into force on the 6 April 2005. It urges anyone to inform the correct authorities of any known wrong doings. The process for reporting breaches of the law to the pension's regulator is available on the council's website at: www.havering.gov.uk and follow the links 'Council and Democracy', 'Pension Fund'.

No breaches were reported during 2010/11.

ACTUARIAL REPORT ON FUNDS

London Borough of Havering Actuarial Statement for 2010/11

London Borough of Havering Pension Fund ("the Fund")

This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2010/11.

Description of Funding Policy

The funding policy is set out in the London Borough of Havering Funding Strategy Statement (FSS), dated February 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 24 years

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £361 million, were sufficient to meet 61.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £228 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from London Borough of Havering, administering authority to the Fund.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 30 March 2011.

Method

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

Assumptions

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

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

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.3%	3.0%
Pay increases *	4.8%	1.5%
Price inflation/Pension increases	3.3%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11, 2011/12 and 2012/13, 3.3% for 2013/14 and 2014/15 before reverting to 4.8% p.a. 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.

Experience over the year since April 2010

The funding level is likely to have remained broadly unchanged over 2010/11. The reasons for this are:

i. Total investment returns were roughly in line with the long term assumption made at the 2010 valuation; and

ii. The outlook for long term inflation implied by the market reduced. However this was roughly matched by a fall in Government bond yields, leading to little overall change to the real discount rate. There is therefore likely to have been minimal change to the value placed on the liabilities.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

Barry McKay
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
1 November 2011

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

GOVERNANCE COMPLIANCE STATEMENT overview

Governance Compliance Statement

Under Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008, administering authorities are required to prepare publish and maintain statements of compliance against a set of practice principles on scheme governance and stewardship.

The Governance Compliance Statement sets the following:

- Arrangements for delegation of decisions regarding the Fund
- Terms, structure and procedures of the delegation
- Frequency of meetings
- Whether there are representatives of employing authorities

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

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

The Governance Compliance statement is also available on the Council's website at www.havering.gov.uk. (Within 'Council and Democracy', 'Pension Fund').

MEMBER INVOLVEMENT

Training and Development

Long membership of the committee is encouraged in order to ensure that expertise is developed and maintained within. The Council recommend that the membership of the Pensions Committee remains static for the life of the term in Council, unless exceptional circumstances require a change.

It is important that all members of the committee are adequately trained and briefed to achieve the terms of reference of the Pension Fund Committee. Training and development took place over the year to ensure that Members of the Committee were fully briefed in the decisions they were taking.

Training during 2010/11 had been tailored to cover specific decisions required.

Members receive briefings and advice from the Funds Investment adviser at each committee meeting.

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

Training logs are maintained and attendance and coverage in the table that follows:

Pension Committee Member Training 2010/11:

<table>
<tr><th>DATE</th><th>TOPIC COVERED</th><th>ATTENDED BY</th></tr>
<tr><td>30 June 2010</td><td>Pensions overview –delivered by Pension Fund Accountant/Fund’s Advisor and Actuary</td><td>Cllr Ower
Cllr Breading
Cllr Wallace (partial)
Cllr D. White (partial)</td></tr>
<tr><td rowspan="3">20 October 10
09 November 10
07 December 10</td><td>Local Government Employers delivering Trustee Training:
• Day 1 (20 Oct 10)
o LGPS framework (past and present)
o Investment framework
o Traditional Asset Classes</td><td>Cllr Munday (chairman)</td></tr>
<tr><td>• Day 2 (9 Nov 10)
o Valuations
o Funding Strategy Statements
o Corporate Governance
o Communication Strategies/Policies
o Established Alternative Investments</td><td>Cllr Munday (chairman)
Dave Thomas (UNISON)</td></tr>
<tr><td>• Day 3 (7 Dec 10)
o Duties and responsibilities of committee members
o The future for LGPS
o Manager and Manager selection
o Bringing it all together</td><td>Cllr Munday (chairman)</td></tr>
<tr><td>10 November 10</td><td>Alliance Bernstein – UK Pension Fund Leaders dinner</td><td>Cllr Munday (chairman)</td></tr>
<tr><td>11 November 10</td><td>Standard Life – Equities Dinner</td><td>Cllr D.White (vice chairman)
Cllr Dervish</td></tr>
<tr><td>20 December 10</td><td>Engaged Investor Handbook distributed, covers:
• Introduction
• Jargon Buster
• Part 1 – Asset Classes
• Part 2 – Investment Strategies
• Part 3 – Managing Investments
• Part 4 – Defined contributions (info only).</td><td>Cllr Munday (chairman)
Cllr D.White (vice chairman)
Cllr Wallace
Cllr Ramsey
Cllr Ower
Cllr Breading
Cllr Tucker
John Giles (UNISON)
David Holmes (Employer Representative)</td></tr>
<tr><td>28 February 10</td><td>• 2010 Valuation Results – delivered by Funds’ Actuary
• Impact of valuation results on the Investment Strategy – delivered by Fund’s Investment Advisor</td><td>Cllr Munday (Chairman)
Cllr D.White (vice chairman)
Cllr Wallace
Cllr Breading
Cllr Ower
Cllr Tucker
John Giles(UNISON)
David Holmes (Employer Representative)</td></tr>
</table>

Key reports arising in the period
All the pension committee agenda and minutes can be found on the Council's website at: www.havering.gov.uk and follow the links 'council and democracy', 'meetings', 'pensions committee'.

The Committee met a number of times during 2010/11 and the coverage and attendance at those meetings are shown in the following table:

DATE	TOPIC	ATTENDED BY
June 2010	○ Pension Fund Performance Monitoring for the quarter ending 31 March 10 ○ Reviewed and updated the statement of Investment Principles in line with revised Myners principles	Cllr Munday (chair) Cllr D. White Cllr Wallace Cllr Ramsey Cllr Ower Cllr Breading Cllr Tucker Brian Long (UNISON)
September 2010	○ Pension Fund Performance Monitoring for the quarter ending 30 June 10 ○ Noted Pension Fund Accounts 2009/10, including external audit report	Cllr Munday (chair) Cllr D. White Cllr Wallace Cllr Ramsey Cllr Barrett (sub for Cllr Ower) Cllr Darvill(sub for Cllr Breading) John Giles (UNISON)
November 2010	○ Reviewed Pension Fund's Communication Strategy and Governance Compliance Statement ○ Noted Whistleblowing Report ○ Reviewed the services of the Pension fund Custodian ○ Agreed extension of the contract for Pensions Advisory Services ○ Agreed Membership status of non teaching staff in non community schools ○ Agreed Pension Fund Annual Report – year ended 31 March 2010	Cllr Munday (chair) Cllr D. White Cllr Wallace Cllr Ramsey Cllr Breading John Giles (UNISON)
December 2010	○ Pension Fund Performance Monitoring for the Quarter ending 30 September 10 ○ Agreed to terminate the mandate with the Global Equity Manager	Cllr Munday (chair) Cllr Wallace Cllr Ramsey Cllr Dervish (sub for Cllr D. White) Cllr Darvill (sub for Cllr Breading) Gary Chick-Mackay(UNISON) (sub for John Giles)
February 2011 (Special meeting)	○ Outcome of 2010 Valuation Report and implications for Investment Strategy	Cllr Munday (chair) Cllr D. White Cllr Wallace Cllr Breading Cllr Ower Cllr S Kelly (sub for Cllr Ramsey) John Giles (UNISON) David Holmes (Employer Representative)
March 2011	○ Pension Fund Performance Monitoring for the quarter ending 31 December 10 ○ Pension Fund investment Strategy – asset allocation and rebalancing	Cllr Munday (chair) Cllr D. White Cllr Ramsey Cllr Ower Cllr Tucker John Giles (UNISON)

The fund has adopted a Business Plan/Report on the work of the Pensions Committee which also sets out the work undertaken by the Committee during 2010/11 and the plan of work for the following year (2011/12).This also includes a Training and Development Plan which is linked to the Pension Fund Coverage of meetings.

During 2011/12 members will be completing CIPFA's Knowledge and Skills Framework which will form supplementary training covered as part of the meetings.

Full coverage of the pension's committee work and training plan can be found on the Council's website: www.havering.gov.uk within 'Council and Democracy', 'Pension Fund', Report on the work of the Pensions Committee March 2011').

CONFLICT OF INTEREST

At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. During 2010/11 there were no conflicts of interests declared.

FUND ACCOUNT AND NET ASSETS STATEMENT

Havering Pension Fund Account for the year ended 31st March 2011

2009/10 £'000		Note	2010/11 £'000
	Contributions and benefits		
28,251	Contributions receivable	3	28,337
849	Transfers in	4	4,311
29,100			**32,648**
(26,926)	Benefits payable	5	(25,702)
(3,488)	Leavers	6	(1,258)
(636)	Administration	7	(613)
(31,050)			**(27,573)**
(1,950)	**Net additions (withdrawals) from dealings with members**		**5,075**
	Returns on Investments		
(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
99,769	**Net returns on investments**		**23,088**
97,819	**Net increase in the Fund during the year**		**28,163**
262,652	Net assets of the scheme at start of year		360,471
360,471	**Net assets of the scheme at end of year**		**388,634**

Net Assets Statement

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)
360,471	**Net assets of the scheme at end of year**		**388,634**

The financial statements summarise the transactions of the scheme and net assets of the fund. They do not take account of obligations to pay pensions and other benefits which fall due after the year end.

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 of Finance and Commerce

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 with guidelines set out in the Statement of Recommended Practice (SORP), Financial Reports of Pension Schemes (Revised May 2007).

2. Accounting Policies

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting. Transactions are included on an accruals basis other than transfer values which are included on a cash basis on the basis that they represent a reasonable estimation of cost.

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.

Futures 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 assets and liabilities in foreign currencies 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.

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.

3. Contributions

	2010/11 £'000	2009/10 £'000
Employers		
Normal:		
Havering	13.057	13,239
Scheduled Bodies	2,072	1,939
Admitted Bodies	560	568
Deficit funding:		
Havering	5,734	5,305
Augmentation:		
Havering	311	650
Scheduled Bodies	63	57
Admitted Bodies	2	71
Employer Total	**21,799**	**21,829**
Members		
Normal:		
Havering	5,506	5,395
Scheduled bodies	723	690
Admitted bodies	160	167
Additional contributions:		
Havering	127	149
Scheduled bodies	21	19
Admitted bodies	1	2
Members Total	**6,538**	**6,422**
	28,337	**28,251**

Note: Some employees made additional voluntary contributions (AVCs) of £99,053 (£83,256 in 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
Pensions		
Havering	20.766	20,426
Scheduled Bodies	327	269
Admitted Bodies	197	106
Pension Total	**21,290**	**20,801**
Commutation & Lump Sum Retirements		
Havering	3,426	4,732
Scheduled Bodies	360	219
Admitted Bodies	128	426
Commutation Total	**3,914**	**5,377**
Lump sum death benefits		
Havering	161	748
Scheduled Bodies	165	0
Admitted Bodies	172	0
Death Benefits Total	**498**	**748**
	25,702	**26,926**

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
	1,258	**3,,488**

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
	613	**636**

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
	1,282	**1,303**

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
Other Income		
Foreign Exchange Profits/(Losses)	213	263
Total Income	**10,196**	**11,274**

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
	348,032	**348,032**	**425,513**	**(430,215)**	**14,292**	**20,161**	**377,783**
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
	360,362	**360,362**	**425,513**	**(430,215)**	**14,174**	**18,687**	**388,521**

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

11. Investments (continued)

	2010/11 £'000	2009/10 £'000
Other Investment Balances		
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
	2,243	**1,267**
Total Investments	**388,521**	**360,362**

(*) 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
Fixed Interest Securities			
Overseas Public	1,332	1,568	(236)
Overseas Private	423	166	257
	1,755	**1,734**	**21**
Index Linked Securities			
Overseas Public	908	672	236
Overseas Private	0	257	(257)
	908	**929**	**(21)**

12. Current Assets

	2010/11 £'000	2009/10 £'000
Pension grants	17	16
Contributions due from employers	312	345
Contributions due from members	84	85
Interest	0	14
Current Assets	**413**	**460**

13. Current Liabilities

	2010/11 £'000	2009/10 £'000
Unpaid benefits	(87)	(17)
Accrued expenses	(214)	(334)
Current assets	**(301)**	**(351)**

14. Related Party Transactions

There were no transactions with related parties other than those disclosed elsewhere in the council's statement of accounts. As disclosed within note 7of the core financial statements of the London Borough of Havering, 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 the 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 2010.

The most recent valuation of the Fund was carried out at the 31 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 and 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, 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 aged 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 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 March 14	15.6	6.4	22.0

The Fund recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 20 years.

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Group Director Finance and Commerce.

Manage its affairs to secure economic efficient and effective use of resources and safeguard its assets.

Approve the Pension Fund Statement of Accounts.

Councillor Eric Munday
Chairman, Pensions Committee
Date: ………………………………..

The Group Director Finance and Commerce's Responsibilities

The Group Director Finance and Commerce is responsible for the preparation of the Council's Statement of Accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the code of practice").

In preparing this Pension Fund Statement of Accounts, based on enquiries of the former Group Director, the current Group Director Finance and Commerce can confirm that they:

Selected suitable accounting policies and then applied them consistently.

Made judgements and estimates that were reasonable and prudent.

Complied with the code of practice.

The Group Director Finance and Commerce has also:

Kept proper accounting records which were up to date.

Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Pension Fund Statement of Accounts presents a true and fair view of the financial position of the Authority at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.

Andrew Blake-Herbert
Group Director Finance and Commerce
Date: ……………………………….

Independent auditors' report to the Members of the London Borough of Havering

We have audited the pension fund accounts included in the Pension Fund Annual Report of London Borough of Havering for the year ended 31 March 2011 which comprise the pension fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Respective responsibilities of the Responsible Finance Officer and the auditor
The Responsible Financial Officer is responsible for the preparation of the pension fund accounting statements which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for London Borough of Havering Council's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the pension fund; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Pension Fund Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the pension fund's accounting statements:

- give a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, of the financial transactions of the pension fund during the year ended 31 March 2011, and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In our opinion, the information given in the Pension Fund Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Julian Rickett (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

BENCHMARKING REPORT

Under regulation 34(1) (g) and in accordance with 65 (2) (b) of the 2008 Administration Regulations, an administrative authority has the option to include an annual report dealing with the funds position with regard to benchmarking administration performance. In line with regulations and after consideration, the administrative authority has not adopted a Pension Administration Strategy. This option continues to be reviewed.

Although the Administrative Authority has not adopted an Administration strategy it has produced a document that covers the Administrative Procedures for Employing Authorities. This document is distributed to Employing Authorities and sets out service standards and outlines the employer's responsibilities to ensure that proper records of staff are kept so that the right contributions are paid and staff receive the benefit to which they are entitled when they leave employment.

The Administrative Authority does report the benchmarks to its investment performance and these can be found in the Investment Policy and Performance report.

FUNDING STRATEGY STATEMENT - overview

The administrative authority produces a Funding Strategy Statement (FSS) which encompasses the aims and purposes of the fund, and the overall investment strategy. Only minor presentational changes were made to the FSS in November 2009. This will be fully reviewed as part of the 2010 triennial valuation process.

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

This statement is also available on the Council's website at **www.havering.gov.uk**. (Within 'Council and Democracy', 'Pension Fund')

The Council undertakes regular reviews of the above statement and will consider any comments you may have for future reviews. Please forward comments to the contact point designated at the back of the report.

STATEMENT OF INVESTMENT PRINCIPLES - overview

The Local Government Pension Scheme regulations require the administrating authority to prepare and publish a Statement of Investment Principles (SIP). This Statement sets out the Council's policy on a range of matters relating to the investments and management of the Pension Fund and is regularly reviewed and updated.

The statement of Investment principles must cover the Fund's policy as follows:

- The types of investments held
- The balance between different types of investments
- Risk
- The expected return on investments
- The extent to which social, ethical or environmental considerations effect investments.

A report commissioned by the Government, 'The Myners Report', recommended ten principles of best practice in managing Pension Fund investments. The Council's SIP outlines the Pension Fund's compliance with these principles.

Statutory Instrument 2002 No.1852 requires that London Borough of Havering, administering authority of the Havering Pension Fund, publish details of the extent to which the fund complies with the ten principles identified as indicators of best practice in the Myners' Review of Institutional Investment.

In 2007 HM Treasury sponsored the NAPF to conduct a review of progress made throughout the pensions industry since the introduction of the Myners principles in 2001. The resultant report 'Institutional Investment in the UK: Six years on' was followed by a wide consultation exercise culminating in the original ten principles being replaced by six new principles.

The new principles were launched in October 2008 and HM treasury and the Department for Work and Pensions jointly commissioned by the Pensions Regulator to oversee an Investment Governance Group were given the task of implementing the new principles across all UK pension funds.

There is an Investment Governance sub-group especially for the LGPS (including representatives of CLG and CIPFA) who have amended the principles to fit the LGPS. CIPFA published a guide to the application of the Myners Principles 'investment decision making and disclosure' in December 09. Information on how Havering has complied with these six principles is included as an appendix in the Statement of Investment Principles.

The SIP together with the Myners' compliance table can be found in the appendices at the back of the report.

This SIP and the Myners' compliance table have also been published on the Council's website at **www.havering.gov.uk**. (Within 'Council and Democracy', 'Pension Fund').

The Council undertakes regular reviews of the above statement and will consider any comments you may have for future reviews. Please forward comments to the contact point designated at the back of the report.

COMMUNICATIONS POLICY STATEMENT- overview

Regulation 67 of the Local Government Pension Scheme Administration Regulations 2008 requires the administration authority to prepare and publish a written statement covering communications with scheme members and employing authorities.

The statement must set out the policy concerning:

- communications with members, representatives, prospective members and employing authorities
- format, frequency and method of distributing such information or publicly.

This statement is reviewed annually.

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

This Statement has also been published on the Council's website at **www.havering.gov.uk**. (Within 'Council and Democracy', 'Pension Fund').

CONTACT POINTS FOR FURTHER INFORMATION

If you have any queries on the benefits or costs of membership of the Pension Fund please contact:

Pensions Administration
Central Library, 2nd Floor
Park End Road
Romford
RM1 3AR

Telephone: 01708 432978/ 2981/ 2192

Email: pensions@havering.gov.uk

For further information on issues relating to Fund Investments and Accounts, or feedback on any of the contents in this report please contact:

Debbie Ford
Pension Fund Accountant
Central Library, 1st Floor
Park End Road
Romford
RM1 3AR

Telephone: 01708 432569

Email: debbie.ford@havering.gov.uk

Other useful addresses:

Local Government Pension Scheme website: www.lgps.org.uk

Local Government Pension Scheme information and Havering Pension Fund communication with members: www.yourpension.org.uk (site managed by the London Pension Fund Authority)

The Pension Service website: www.thepensionservice.gov.uk

APPENDICES

Havering
LONDON BOROUGH

PENSION FUND

GOVERNANCE STATEMENT

UPDATED NOVEMBER 2011

1. The Council is the Administering Authority of the Pension Fund. The council has delegated to the Pensions Committee various powers and duties in respect of its administration of the fund.

2. Constitutional Arrangements

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

To consider and agree the investment strategy and statement of investment principles for the pension fund and subsequently monitor and review performance.

Where appropriate and above staff delegation levels to recommend staff to invite tenders and award contracts for actuaries, advisers and fund managers or other related investment matters.

To appoint and review the performance of advisers and investment managers for Council and pension fund investments.

To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning the Local Government Pension scheme.

3. Current Membership of the Pension Committee

The Pension Committee currently consists of seven councillors listed below:

Conservative Group (4)	**Residents' Group (1)**	**Independent Residents (1)**	**Labour (1)**
Eric Munday (Chairman) Damian White (Vice Chairman) Melvin Wallace Roger Ramsey	Ron Ower	Jeffery Tucker	Denis Breading

Three Members constitute a quorum.

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

Scheduled and Admitted bodies may appoint one representative, entitled to attend and speak at meetings of the Pensions Committee on their behalf. No voting rights are currently assigned to this representative but will be kept under review.

The Committee obtains and considers advice from the authority's officers, and as necessary from the fund's appointed professional advisor, actuary and performance measurers who also attend the meetings as and when required.

Longevity in membership of the Committee is encouraged in order to ensure that expertise is maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the Council in order that members are fully trained in matters relating to investment, unless exceptional circumstances require a change. Furthermore substitute members are expected to have also been trained.

Day to day management of the fund is delegated to the Group Director Finance and Commerce.

The Committee is supported by the Group Director of Finance and Commerce and the Assistant Chief Executive Legal and Democratic Services. The Head of Internal Shared Services has the responsibility to administer the Council's pension fund.

4. Training/Reimbursement

An annual training plan is submitted to the Pensions Committee for approval. Committee Members receive in depth training on a wide range of topics. Specific training is given on specific investment topics prior to any key decisions being taken. This approach ensures that important decisions are taken whilst training is still fresh in Members minds.

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

5. Whistle Blowing

The Pension Committee comply with the Whistle Blowing requirements of the Pension Act 2004. It urges anyone to inform the correct authorities of any known wrong doings.

6. Diary

The Committee meets five times a year and occasionally holds extra meetings if required.

7. Further Trustee Responsibilities on Governance and Stewardship

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

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

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

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

- There are codes of conduct in place which ensure there is a process in place that considers potential conflicts of interest, with clearly identified steps to mitigate the likelihood or protocols if conflict occurs.

- The Pension Committee periodically sets out a business plan for the year.

8. Accountability and publication of information

Details of the Pension Committee meetings are published on the Council's website together with agendas and minutes. The meetings of the Pension Committee are held at the Town Hall and are open to the public.

Scheduled and Admitted bodies are directed to the agenda and minutes published on the Council's website and are notified in writing of any major issues.

An Annual Pension Fund Report and Accounts is published and circulated to all council members, reporting on the activities and investment performance of the fund. The report also includes the meetings held and details of matters considered.

9. Reviewing and Updating

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

10. Compliance table

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

	PRINCIPLE	HAVERING POSITION
A	<u>**Structure**</u> a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	**Full compliance**. Duties and terms of reference are laid out in the Councils constitution (Part 3) and states that management of the pension fund lies with the Pensions Committee. Sections 2 and 3 of the Governance Compliance Statement refer.
	b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the committee.	**Full compliance.** Admitted/Scheduled bodies representatives may appoint one representative to attend and speak at committee meetings. The staff Trade Unions may appoint two representatives to attend and speak at meetings. There is no secondary committee. Section 3 of the Governance Compliance Statement refers.
	c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	No secondary committee or panel has been established.
	d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	No secondary committee or panel has been established.

	PRINCIPLE	HAVERING POSITION
B	**<u>Representation</u>** a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, e.g. admitted bodies);	i) **Full compliance -** A position has been established for Admitted/Scheduled bodies' representative to be a member of the Pensions Committee. This position was filled in September 2008. Supplementary to the above stakeholders are consulted for their views with regard to various policies and are directed to papers and reports held on the Council's website.
	ii) scheme members (including deferred and pensioner scheme members),	ii) **Full compliance** – via union representation
	iii) where appropriate, independent professional observers, and	iii) **Non compliance** – The Pension Committee have considered this and decided that it is not appropriate to appoint an independent observer on the basis that the current monitoring arrangements are sufficient for the size of the fund.
	iv) expert advisors (on an ad-hoc basis)	iv) **Full compliance** – The fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required. Section 3 of the Governance Compliance Statement refers.

	PRINCIPLE	HAVERING POSITION
C	**<u>Selection and role of lay members</u>** a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	**Full compliance.** Duties and terms of reference are laid out in the Councils constitution and states that management of the pension fund lies with the Pensions Committee. Sections 2 and 3 of the Governance Compliance Statement refer.
	b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	**Full compliance.** Declarations of interest are always an agenda item at the Pension Committee meetings. Section 7 of the Governance Compliance Statement refers.
D	**Voting** a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	**Partial compliance**. The Governance Compliance Statement is clear about voting rights but currently does not include justification for not extending voting rights to each body. **Going forward** – Pension Committee members to review whether to extend voting rights to the co-opted member or to provide justification for not extending voting rights. Section 3 of the Governance Compliance Statement refers.

	PRINCIPLE	HAVERING POSITION
E	**Training/Facility time/Expenses**	
	a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	**Full compliance.** Member's expenses and allowances are laid out in the Council's Constitution (Part 6). There is a clear policy that a training plan is developed but consideration is given to prioritise training around the issues that may require decisions in the forthcoming year.
	b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	**Full compliance**. As above.
	c. That the administrating authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken	**Full compliance.** As above. A training plan is being developed and will be agreed by members of the Pensions Committee. All committee members are offered training. A log of training is maintained and records attendance and training undertaken. Section 4 of the Governance Compliance Statement refers.

	PRINCIPLE	HAVERING POSITION
F	**<u>Meetings (frequency/quorum)</u>**	
	a. That an administering authority's main committee or committees meet at least quarterly	**Full compliance**. The Pension Committee meets five times a year and occasionally holds extra meetings if and when required. Sections 2, 3 and 6 of the Governance Compliance Statement refer.
	b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the committee sits.	No secondary committee or panel has been established.
	c. That an administration authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which interests of key stakeholders can be represented.	**Full compliance.** Membership on the pensions committee has been extended for one representative to serve all admitted/scheduled bodies. The current forums for which stakeholders interests can be represented are: • Through invitation to committee meeting • Written correspondence – employers are invited for comments via letters and email as part of any consultation process, including proposed policy changes. • Havering is one of the partnerships working with the London Pensions Fund Authority, who have produced a website for scheme members to use. A newsletter to launch the website was distributed to members of the scheme in the spring 2011. Factsheets and scheme communications are published on this website along with contact details at Havering for members to contact with their views.

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

Havering
LONDON BOROUGH

HAVERING PENSION FUND

COMMUNICATION STRATEGY

NOVEMBER 2010

COMMUNICATION STRATEGY

INTRODUCTION

An effective communications strategy is vital for any organisation which strives to provide a high quality and consistent service to its customers.

There are six distinct groups with whom the Fund needs to communicate:

- COMMITTEE MEMBERS
- SCHEME MEMBERS
- PROSPECTIVE SCHEME MEMBERS
- SCHEME EMPLOYERS
- INVESTMENT FUND MANAGERS
- OTHER BODIES

Set out in this document are the mechanisms which are used to meet those communication needs.

The fund aims to use the most appropriate communications medium for the audiences receiving the information. This may involve using more than one method of communication,

PENSION COMMITTEE MEMBERS

The Fund management and administration decisions have been delegated under the Council's constitution to the Pensions Committee.

Knowledge building and training is provided via the Fund's Officers, advisors and external experts with regards to investment and administration matters.

Admitted and Scheduled Bodies who have members in the Fund are represented at the Pensions Committee meetings by one of the employers of the fund who acts on behalf of all other employers. The Trade Unions are also invited, who attend meetings on an observer basis, but whose views are given equal weighting. The Trade Union representatives are also Scheme members.

The work of the Trade Union members is supported by Trade Union representatives.

SCHEME MEMBERS

Internet
The Fund is currently establishing an extensive internet area containing Scheme details, Scheme leaflets etc. There will also be links to other organisations relevant to Scheme members, e.g. employers, AVC providers, employers' organisations etc.

Pension fund Annual Report and Accounts
The Pension fund communicates with its members via publication of an Annual Report which is available on the Council's website.

A copy of the Fund's accounts are available on the Council's website and included in the Pension Fund's Annual Report.

Newsletters
Newsletters are issued to members of the Fund, as changes to the scheme occur, and covers current pension topics within the LGPS, specific issues for Havering and the pensions industry in general.

Benefits Statements
An Annual Benefit Statement is sent direct to the home address of all members who are contributing to the Fund at the previous financial year end.

Benefit Statements are also sent direct to the home address of deferred members where a current address is known.

Scheme Literature
An extensive range of Scheme literature is produced by the Administering Authority and is supplied to employing bodies and Scheme members directly.

Pay Advices
The Fund only issues a pay advice to Scheme pensioners if their net pay varies by more than £1.00. This is utilised as a communication mechanism as well, e.g. Pensions Increase and P60 information is communicated using this medium on an annual basis.

Correspondence
The fund utilises both surface mail and e-mail to receive and send correspondence.

Our Aspirations
A password security system which allows Scheme members to transact a significant proportion of their pensions business without having to enter into formal correspondence.

Pension Roadshow
The Fund stages Pensions Roadshows as and when required to communicate with scheme members on changes to the scheme or promote the scheme or specific aspects of it.

Additionally, Pensions Administration Staff attend Pre-retirement courses run by the Council to provide information to staff nearing retirement.

PROSPECTIVE SCHEME MEMBERS

Scheme Booklet
All new prospective Scheme members will be provided with a Scheme booklet at the time of their appointment to the London Borough of Havering.

Intranet
The Fund's Intranet area will contain specific information for non-joiners. It will highlight the process by which a member should be given the relevant information to make an informed choice, as well as detailing the administrative process that should be followed to "opt out" of the Scheme.

Trade Unions
We will work with the relevant Trade Unions to ensure the Scheme is understood by all interested parties. Training days for branch officers will be provided upon request, and efforts will be made to ensure that all pension related issues are communicated effectively with the Trade Unions.

Pensions Roadshows
As well as being a valuable aid for pensioners and current scheme members, roadshows will be used to target specific non-members with support being enlisted from the DWP and in-house AVC providers. This will ensure members receive the information required to make an informed choice with regards to their pension provision.

Corporate Induction Courses
Officers of the Council will attend corporate induction events in order to present to prospective Scheme members the benefits of joining the LGPS. A "one-on-one" surgery will also be offered to take account of individual queries that may be raised at such meetings.

SCHEME EMPLOYERS

Regular Updates
These are issued periodically to all employers. This medium is also used to communicate any issues that are currently under debate. Changes to the Regulations which impact upon the employer's function or their employees are also covered.

Employers' Guide
An Employers Guide is issued to assist the employers in discharging their pension's administration responsibilities. Officers are also available for advice.

This is supplemented by the allocation of a Senior Pensions Officer to non-Havering employers who is available by telephone or personal visit to assist whenever necessary.

Internet
A microsite for employers will be established. All manuals and Scheme literature will be available on this site.

Site Meetings
Meetings with non-Havering Employers take place at their premises, as required. Specifically this has been used as a mechanism for communicating major strategic issues, significant legislation changes and triennial valuation matters.

PENSIONS FUND AND ADMINISTRATION STAFF

Service Management Teams
The Fund is managed by Financial Services and administered by Internal Shared Services whose Senior Officers report to the relevant Heads of Service.

Team Meetings
Office and/or Team Meetings are held on a regular basis.

Group Management Team Meetings – Finance and Commerce
The Heads of Service are members of the Group's Management Team and attend the regular meetings convened by the Group Director. The Heads of Service are able to bring any matters of concern/importance to the attention of the Group Director through this mechanism.

Any necessary information arising from the Group's Management Team Meeting is disseminated within the Services, via Management Team and Team Briefings. Due to the nature of the investment work and delegation the Pensions Accountant meets with the Group Director, Finance and Commerce as required.

Intranet
Service intranets give all staff access and contain such information as procedure manuals, core briefings, LGPC circulars etc. This is an effective mechanism for ensuring that information is available to all staff at their work location in a timely manner.

Induction
All new members of staff undergo an induction procedure and an induction/personnel manual is available to all staff.

The Council has introduced a performance appraisal scheme for staff which includes a process for discussing and reviewing personal development. This is supplemented by regular one to one meetings with all staff.

Internet
Appropriate staff have been enabled to use the corporate network in order to access the internet.

E-mails
All staff have been given access to the e-mail facility.

Pensions Manager
The Pensions Manager maintains an open-door policy and, within reason, is available to all staff on request.

Pension Fund Accountant
On a similar basis responds to staff and other enquiries.

INVESTMENT FUND MANAGERS

Day to day contact between the pension fund accountant and the fund managers is maintained. Each fund manager is required at the end of each quarter to present their performance alternately to the Pensions Committee or to officers including the Group Director Finance and Commerce.

OTHER BODIES

Trade Unions

Trade Unions in the London Borough of Havering are valuable ambassadors for the Pension Scheme. They ensure that details of the Local Government Pensions Scheme's availability are brought to their members' attention and assist in negotiations under TUPE transfers in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

Seminars
Fund Officers regularly participate at seminars and conferences.

Data Protection
To protect any personal information held on computer, London Borough of Havering is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection Act grounds should contact the London Borough of Havering's Council's Data Protection Officer on 01708-432130.

This authority is under a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

Further Information

If you need more information about the Scheme you should contact the Pensions Administration Service at the following address:

Write to us at:
Central Library, 2nd Floor,
Park End Road
Romford
RM1 3AR

Tel: 01708 432192/432981
Fax: 01708 432078
E-Mail: pensions@havering.gov.uk
Council's website:
www.havering.gov.uk

There is also a number which you can dial direct and get through to the person dealing with individual cases. You will find this on any letter issued by the Fund.

Havering
LONDON BOROUGH

FUNDING STRATEGY STATEMENT

MARCH 2011

FUNDING STRATEGY STATEMENT

LONDON BOROUGH OF HAVERING PENSION FUND

Overview

This Statement has been prepared in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997. The Statement describes London Borough of Havering's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the London Borough of Havering Pension Fund (the Fund).

As required by Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (the Administration Regulations), this Statement is kept under review and revised as appropriate. In reviewing and making revisions to the Statement, the Administering Authority has regard to guidance published by CIPFA in March 2004.

Consultation

In accordance with Regulation 35(3) (b) of the Administration Regulations, all employers participating within the London Borough of Havering Pension Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the Investment Regulations).

The Fund Actuary, Hymans Robertson LLP, has also been consulted on the contents of this Statement.

Policy Purpose

The three main purposes of this Funding Strategy Statement are:

- To establish a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
- To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
- To take a prudent longer-term view of funding the Fund's liabilities.

The Aims of the Fund

The aims of the Fund are:

1. To ensure that sufficient resources are available to meet all liabilities as they fall due.

   The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a monthly basis to ensure that all cash requirements can be met.

2. To enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.

   The Administering Authority recognises that the requirement to keep employer contribution rates as nearly constant as possible can run counter to the following requirements:

   - the regulatory requirement to secure solvency,
   - the requirement that the costs should be reasonable, and
   - maximising income from investments within reasonable cost parameters (see 4 below)

   Producing low volatility in employer contribution rates requires material investment in assets which 'match' the employer's liabilities. In this context, 'match' means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

   Other classes of assets, such as other equities and property, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the returns from investments the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short term periods.

   This short term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of stabilisation mechanisms.

   The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the stabilisation mechanisms used at valuations, and the resultant smoothness of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short term contracts where utilisation of stabilisation mechanisms is less appropriate.

3. To manage employers' liabilities effectively.

   The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers and Pensions Committee Members are properly informed, and through regular monitoring of the funding position.

4. To maximise the income from investments within reasonable risk parameters.

   The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on government stocks are sought through investment in other asset classes such as stocks and property. The Administering Authority ensures that risk parameters are reasonable by:

   - restricting investment to the levels permitted by the Investment Regulations.
   - restricting investment to asset classes generally recognised as appropriate for UK pension funds.
   - analysing the potential risk represented by those asset classes in collaboration with the Fund's Actuary, Investment Advisors and Fund Managers.

Purpose of the Fund

The purpose of the Fund is:

1. To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.
2. To receive monies in respect of contributions, transfer values and investment income.

Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Individual Employers and the Fund Actuary.

Their key responsibilities are as follows:

Administering Authority

The Administering Authority's key responsibilities are:

1. Collecting employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.

Individual employers must pay contributions in accordance with Regulations 39, 40, 41, 42 and 43 of the Administration Regulations. The Administering Authority will ensure that all employers are aware of these requirements especially the requirement of the Pensions Act 1995 that members' contributions are paid by the 19th of the month following the month that it is paid by the member. The contributions to the Pension Fund are monitored and processed by the Pension Administration team. If contributions are received more than a month after payment is due, interest will be charged at the rate of 1% above the bank base rate.

The Administering Authority will ensure that action is taken to recover assets from Admitted Bodies whose Admission Agreement has ceased by:

- Complying with Regulation 38(2) of the Administration Regulations by requesting that the Fund Actuary calculates any deficit at the date of the cessation of the Admission Agreement
- notifying the Admitted Body that it must meet any deficit at the cessation of the Agreement.

2. <u>Invest surplus monies in accordance with the regulations.</u>

   The Administering Authority will comply with Regulation 9 of the Investment Regulations.

3. <u>Ensure that cash is available to meet liabilities as and when they fall due.</u>

   The Administering Authority recognises this duty and discharges it in the manner set out in the Aims of the Fund above.

4. <u>Manage the valuation process in consultation with the Fund's Actuary</u>

   The Administering Authority ensures it communicates effectively with the Fund Actuary to:

   - agree timescales for the provision of information and provision of valuation results
   - ensure provision of data of suitable accuracy
   - ensure that the Fund Actuary is clear about the Funding Strategy
   - ensure that participating employers receive appropriate communication throughout the process
   - ensure that reports are made available as required by Guidance and Regulation

5. <u>Prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties</u>.

   The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

6. <u>Monitor all aspects of the Fund's performance and funding and amend these two documents if required.</u>

   The Administering Authority monitors the funding position of the Fund on a quarterly basis, and the investment performance of the Fund on a monthly basis. The Statement of Investment Principles and Funding Strategy Statement will be reviewed annually, unless circumstances dictate earlier amendment.

Individual Employers will:

1. Deduct contributions from employees' pay.
2. Pay all contributions, including their employer contribution as determined by the actuary, promptly by the due date.
3. Exercise discretions within the regulatory framework.
4. Pay for added years or pensions in accordance with agreed arrangements.
5. Notify the administering authority promptly of all changes to membership, or other changes which affect future funding

The Fund Actuary will:

1. <u>Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the Funding Strategy Statement.</u>

   Valuations will also be prepared in accordance with generally accepted actuarial methods and reported on in accordance with Guidance Note 9 issued by the Board for Actuarial Standards, to the extent that the Guidance Note is relevant to the LGPS.

2. <u>Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.</u>

   Such advice will take account of the funding position and funding strategy of the Fund, along with other relevant matters.

<u>Solvency</u>

The Administering Authority will prudentially seek to secure the solvency of the Fund. For this purpose the Administering Authority defines solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities when measured using 'ongoing' actuarial methods and assumptions (ongoing funding basis).

'Ongoing' actuarial methods and assumptions are taken to be measurement by use of the projected unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer of sound covenant.

The financial assumptions used to assess the funding level will have regard to the yields available on long term fixed interest and index linked gilt edged investments. The Administering Authority has also agreed with the Fund Actuary that the assumptions will make partial allowance for the higher long term returns that are expected on the assets actually held by the Fund, and understands the risks of such an approach if those additional returns fail to materialise.

The ongoing funding basis has traditionally been used for each triennial valuation for all employers in the fund.

Where an admission agreement for an admission body that is not a Transferee Admission Body and has no guarantor is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the Fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Fund also reserves the right to adopt the above approach in respect of those admission bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

The Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

Funding Strategy

Where a valuation reveals that the Fund is in surplus or deficiency against this solvency measure, employer contribution rates will be adjusted to target restoration of the solvent position over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 20 years. The Administering Authority's policy is to adopt recovery periods for each employer which are as short as possible within this framework.

For employers whose participation in the Fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a recovery period longer than the remaining term of participation, other than in exceptional circumstances, when it may permit recovery over a period not exceeding 10 years subject to security, e.g. an indemnity or bond or other contingent asset of amount and form acceptable to the administering Authority, being maintained.

Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority permits some employers to be treated as a group for the purposes of setting contribution rates. In particular, contribution rates could be very volatile for smaller employers due to the increased likelihood that demographic movements would have a material effect. The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects to this grouping, it will be offered its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

Again, consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps will be permitted. Further steps may be permitted in extreme cases, but the total is very unlikely to exceed six steps.

Identification of risks and counter measures

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the Fund are:

Demographic

The main risks include changing retirement patterns, take up of the commutation option and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for Transferee Admitted Bodies.

Regulatory

The risks relate to changes to regulations, National pension requirements or Inland Revenue rules. The Administering Authority will keep abreast of all proposed changes and, where possible, express their opinion during consultation periods after careful consideration. The Administering Authority's policy will be to ask the Fund Actuary to assess the impact on costs of any changes and, where these are likely to be significant, the Administering Authority will notify Employers of this likely impact and the timing of any change.

Governance

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Statistical/Financial

This covers such items such as the performances of markets, Fund investment managers, asset reallocation in volatile markets, pay and /or price inflation varying from anticipated levels or the effect of possible increases in employer contribution rate on service delivery and on Fund employers. The Administering Authority's policy will be to regularly assess such aspects to ensure that all assumptions used are still justified.

Solvency measure

The Administering Authority recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise. The Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the low risk position.

Stabilisation

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, stepping and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has commissioned the Fund Actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there are no material events between 1 April 10 and 1 April 2011 which render the stabilisation unjustifiable.

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" and are therefore paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

The LGPS regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities. The role of the Fund Actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

Recovery period

The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority's policy is to discuss

the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 20 years.

Stepping

The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the
process. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps to three annual steps. In exceptional circumstances further steps may be permitted but the total is highly unlikely to exceed six annual steps.

Admission Bodies Ceasing

Admission agreements for Transferee Admission Body contractors are assumed to expire at the end of the contract.

Admission agreements for other employers are generally assumed to be open-ended and to continue until all the benefits have been paid in full. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These admission agreements can however be terminated at any point subject to the terms of the agreement.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement:

- Last active member ceasing participation in the LGPS;
- The insolvency, winding up or liquidation of the admission body;
- Any breach by the Admission Body of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the admission body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the admission body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Fund.

In addition either party can voluntarily terminate the admission agreement by giving the appropriate period of notice as set out in the admission agreement to the other party (or parties in the case of a Transferee Admission Body).

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

a) For Transferee Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with the assumptions used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

b) For admission bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. Where there is a guarantor, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.

c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

In the event that the Fund is not able to recover the required payment in full directly from the Admission Body or from any bond or indemnity or guarantor, then:

a) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period.

b) In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date

As an alternative to (b) above where the ceasing Admission Body is continuing in business, the Fund, at its absolute discretion, reserves the right to enter into an agreement with the ceasing Admission Body to accept an appropriate alternative security to be held against any funding deficit and to carry out the cessation valuation on an ongoing valuation basis. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified.

Early Retirement Costs

Non Ill Health retirements

The Actuary’s funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members’ benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to any part of their benefit and without requiring their employer’s consent to retire. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired “early”.

The additional costs of premature retirement are calculated by reference to these ages.

Employers must make these additional contributions as a one off payment to the fund immediately on awarding the early retirement. The exception to this rule are statutory bodies with tax raising powers, where, depending on the circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding 3 years. In any event the spread period cannot exceed the period to the member’s normal retirement date if this is shorter than 3 years.

Ill health monitoring

The Fund will monitor each employer’s, or pool of employers, ill health experience on an ongoing basis. If the cumulative cost of ill health retirements in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

New Admitted Bodies

The Fund requires the following from any potential Admission Bodies wishing to join the Fund.
Transferee Admission Bodies will be required to have a guarantee from the transferring scheduled body and also provide a bond if requested by the awarding authority and/or the Administering Authority. The bond is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the employer’s contract

- allowance for the risk of asset underperformance
- allowance for the risk of a fall in gilt yields

The Fund may also require employers to include their current deficit within the bond amount. The bond amount will be reassessed by the Fund actuary on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies to join the Fund if they are sponsored by a scheduled body with tax raising powers, guaranteeing their liabilities, and also provide a bond if requested.

These measures reduce the risk to the Fund of potentially having to pick up any shortfall in respect of Admission Bodies.

Links to investment policy set out in the Statement of Investment Principles

The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles and the funding policy set out in this Statement.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, asset liability modelling or other analysis techniques.

Future monitoring

The Administering Authority plans to review this statement annually, and as part of the triennial valuation process unless circumstances arise which require earlier action.

The Administering Authority will discuss with the actuary the impact on the funding position of any significant changes that have arisen to determine whether interim valuations or any other action needs to be taken.

Havering
LONDON BOROUGH

STATEMENT OF INVESTMENT PRINCIPLES

NOVEMBER 11

STATEMENT OF INVESTMENT PRINCIPLES

London Borough of Havering Pension Fund ('the Fund')

Background

Legislation

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1999 as amended require Local Authority Pension Funds to prepare a Statement of Investment Principles (SIP) and to review it at least every three years and without delay after any significant change in investment policy. They are also required to set out a Statement of Compliance with the six Principles of Investment Management contained in the CIPFA document "Principles for Investment Decision Making and disclosure" published in December 2009.

In preparing this Statement, the Pensions Committee has considered advice from the Investment Practice of Hymans Robertson LLP.

In relation to the Myners Code of Conduct for Investment Decision Making, the extent of the Trustees compliance with this voluntary code is summarised in the Appendix to this statement.

Purpose and Scope of Scheme

The London Borough of Havering is the Administering Authority for the London Borough of Havering Pension Fund. The Fund is part of the Local Government Pension Scheme (LGPS) and provides death and retirement benefits for all eligible employees and their dependants. It is a final salary defined benefit Pension Scheme, which means that benefits are payable based on the employees' final salary. All active members are required to make pension contributions which are based on a fixed percentage of their pensionable pay as defined in the LGPS regulations. Following the changes to the benefit structure of LGPS Schemes from 1 April 2008, active members previously paying contributions of 6% will pay banded rates between 5.5% and 7.5% depending on their level of full-time equivalent pay. Manual workers in employment before 1st April 1998 who previously had a protected 5% rate will be subject to transitional rates.

The London Borough of Havering is responsible for the balance of the costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time (but at least triennially) by the Fund's actuary.

The London Borough of Havering has a direct interest in the investment returns achieved on the Fund's assets, but the benefits paid to pensioners are not directly affected by investment performance.

Pensions Committee

A dedicated group of Councillors (the “Pensions Committee”) has been set up to deal with the majority of the Fund’s investment issues. Major investment decisions will be referred for consideration to the Pensions Committee. The Pensions Committee is made up of elected representatives of The Council who each have voting rights and Trade Union and Employer representatives who have observer status. The Pensions Committee reports to Full Council and has full delegated authority to make investment decisions. The Pensions Committee decides on the investment policies most suitable to meet the liabilities of the Havering Pension Fund and has ultimate responsibility for the governance of the Fund including Investment Strategy.
In particular, the Pensions Committee has duties that include:

- Monitoring the investment performance of the Fund on a quarterly basis;
- Determining overall strategy;
- Ensuring compliance with legislative requirements;
- Receiving the triennial valuation prepared by the Funds actuary with recommended contribution levels;
- Determining asset allocation and benchmarking;
- Appointment of Investment Managers.

The Pensions Committee is set up under the Local Government Act so that, where necessary it can exercise decision-making powers. The Pensions Committee meets at least four times per year to hear reports from its officers, investment managers, actuary, and investment adviser and performance measurement provider. Additional meetings are held as required in particular to ensure the appropriate Councillor training.

The Pensions Committee also receives and considers advice from executive officers of the Council and, as necessary, from its appointed external investment adviser (including specific investment advice), the actuary to the Fund and its investment managers.

The Regulations state that the Administering Authority must, when formulating its investment policy, have regard to the advisability of investing fund money in a wide range of investments and to the suitability of particular investments and types of investments.

Fund Objective

The purpose of the Fund is:

1. To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses;
2. To receive monies in respect of contributions, transfer values and investment income.

The overriding aims of the Fund as set out in the Funding Strategy Statement are as follows:

- To ensure that sufficient resources are available to meet all liabilities as they fall due.

- To enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.

- To manage employers' liabilities effectively.

- To maximise the income from investments within reasonable risk parameters.

For active members, benefits are based on service completed but take account of future salary increases. The value of liabilities is calculated consistently on the ongoing basis set out in the formal report of the Fund's Actuary on the actuarial valuation carried out as at 31 March 2010. The fund's performance is monitored quarterly by the Pensions Committee and the funding position is formally reviewed at each triennial actuarial valuation or unless circumstances arise which require earlier action.

Investment Objective

Following a review of the Investment Strategy in 2008, the Pensions Committee have translated their objectives into a suitable strategic asset allocation benchmark for the Fund. All day to day investment decisions have been delegated to a number of authorised investment managers. The strategic benchmark is reflected in the choice and mix of funds in which the Fund invests. The Fund's benchmark is consistent with the Pensions Committee's collective view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The Committee conducted a detailed study of the Funds' investment strategy during 2008 involving an asset/liability modelling exercise ('Phase 1') and a structure modelling exercise ('Phase 2') for fine tuning of the risk return profile of the selected strategy. In selecting the investment strategy the Pensions Committee have been advised by their Investment Adviser, Hymans Robertson, and have paid due consideration to:

- Prudence – the impact on the margins included in the actuarial funding basis and the need for the actuary to adopt a prudent approach.

- Affordability – the impact on the level of Employer contributions in the longer term.

- Stability – the extent to which Employer contributions vary between actuarial valuations and the need to minimise such variations.

- Stewardship – the impact of the investment strategy on reaching target funding levels and the associated risks involved.

Asset Allocation

To achieve their objectives the Pensions Committee has agreed upon the following benchmark allocation:

Asset Class	**Active** %	**Passive** %	**Target** %
Property	10		10
UK Equities	17	3	20
Global Equities	17	23	40
Fixed Interest Gilts	}		}
Index Linked Gilts	} 20		} 20
Corporate Bonds	}		}
Absolute Return	10		10
Total	**74**	**26**	**100**

The Pensions Committee target allocation is broadly inline with the investment strategy review carried out in 2008 but now takes into account the change from active to passive management and the increase in the allocation to Absolute Return.

The underlying target return of this strategy is the return on long dated Gilts plus 2.6% p.a. This level of performance over Gilts allows for the expected returns from the combination of asset classes net of fees, and makes a conservative allowance for active manager skill. It is consistent with the average long term return expectations underlying the modelling work supporting the strategy review.

The expected returns as used in the modelling work during the strategy review for individual asset classes were:

	Expected Rates of Return % p.a.
UK Equity (UK)	7.8%
Equity (Overseas)	7.5%
Fixed Interest Gilts	4.6%
Index-Linked Gilts	4.4%
Corporates	5.4%
Cash	4.8%
Commercial Property	5.7%
Alternative Assets	7.0%

Choosing Investments

The Pensions Committee have appointed investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Pensions Committee have given the investment managers specific directions as to the asset allocation but investment choice has been delegated to these managers subject to their respective benchmarks and asset guidelines.

The fund has undergone some changes to its structure to align to the new benchmark allocation. Some of those changes have yet to be fully implemented but it is anticipated that this will be completed during 2011/12. The allocation of assets to each manager that the Committee aims to have in place at the end of the restructuring process is as follows:

Mandate (% of fund awarded)	**Manager**	**Tactical Benchmark**	**Target**
Property (10%)	UBS	IPD All balanced (property) Fund's median	To outperform the benchmark
UK Equities (Active 17%)	Standard Life	FTSE All Share	+2% net of fees
Global Equities (Active 17%)	Yet to be appointed	MSCI All Countries Index	+2.5% net of fees
UK /Global Equities (Passive 26%)	State Street Global Assets	Composite	To track the benchmark (gross of fees)
Investment grade bonds (20%)	Royal London Asset Management	Composite	+0.75% net of fees
Absolute Return (10%)	Ruffer LLP	UK bank deposit rate	To outperform the benchmark (net of fees)

From time-to-time, particularly when implementing the changes to the strategic asset allocation, when markets are volatile or when dealing costs are high, the Committee may deviate from the long-term strategy on a temporary basis. The Committee recognises that, while it is impossible to predict short-term market movements, it should use its reasonable judgement in such circumstances. For example, this could be applied with the aim of avoiding excessive dealing costs or reducing the impact of adverse market movements by spreading changes over a number of dealing dates. In doing so, the Committee also recognises that the Fund is intended to meet the liabilities as they emerge over the longer term and hence the normal default position is to be fully invested broadly in line with the strategic benchmark.

Fees

UBS is remunerated by a fixed management fee and the expenses inherent in the management of the pooled property fund. All other fund managers are remunerated by an ad valorem scaled fee based on the market value at quarter end of the assets under management.

Investment Responsibilities

Responsibilities of the Pensions Committee

- Overall investment strategy and strategic asset allocation with regard to the suitability and diversification of investments;
- Monitoring compliance with this Statement of Investment Principles and reviewing its contents;
- Appointing investment managers, an independent custodian, the Fund actuary, external independent advisers and investment adviser;
- Reviewing investment manager performance against established benchmarks on a regular basis;
- Reviewing the investment managers' expertise and the quality and sustainability of their investment process, procedures, risk management, internal controls and key personnel;
- Reviewing policy on social environmental and ethical matters and on the exercise of rights, including voting rights;
- Reviewing the investments over which they retain control and to obtaining written advice about them regularly from the investment adviser. The Pensions Committee will also obtain written advice from the investment adviser when deciding whether or not to make any new investments or to transfer or redistribute assets within the mandates, whether due to market movements or other factors;
- Rebalancing the assets with reference to trigger points. When the Fund allocation deviates by 5% or more from the strategic allocation, the assets will be rebalanced back to within 2.5% of the strategic asset allocation. In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Committee may decide to suspend rebalancing temporarily. The priority order for funding rebalancing is to first use surplus cash, followed by dividend and or interest income and lastly using sales of overweighted assets. The Pensions Committee will seek the written advice of the investment adviser with regard to rebalancing and detailed distribution of cash or sale proceeds.

The Pensions Committee is advised by The Council's Executive Officers, who are responsible for:

- Ensuring compliance with statutory requirements and the investment principles set out in this document and reporting any breaches to the Pensions Committee;
- Management of surplus cash, which is lent through the money markets in accordance with the Council's Treasury Management Code of Practice. Performance is measured against the 7-day London Interbank Bid (LIBID) rate;

- Investment accounting and preparing the annual report and accounts of the fund;
- Ensuring proper resources are available for the Council's responsibilities to be met.

The Investment Managers are responsible for:

- The investment of pension fund assets in compliance with the legislation and the detailed investment management agreements;
- Tactical asset allocation around the managers' strategic benchmark as set by the Pensions Committee;
- Stock selection within asset classes;
- Voting shares in accordance with agreed policy;
- Preparation of quarterly reporting including a review of past investment performance, transaction costs and future investment strategy in the short and long term;
- Attending meetings of the Pensions Committee and officers of the council as required.

The Independent Custodian is responsible for:

- Provision of monthly accounting data summarising details of all investment transactions during the period;
- Providing investment transaction details in a timely manner to the independent performance measurers;
- Safe custody and settlement of all investment transactions, collection of income, withholding tax reclaims and the administration of corporate actions;
- The separation of investment management from custody is paramount for the security of the assets of the Fund.

The Actuary is responsible for:

- Undertaking a triennial valuation of the Fund's assets and liabilities and interim valuations as required, including those to enable compliance with the reporting standard FRS17/IAS19;
- Advising on the rate of employer contributions required to maintain appropriate funding levels;
- Providing advice on the admission and withdrawal of employers to the scheme, including external employers following externalisation of services;
- Preparing the Funding Strategy Statement.

The Independent Measurers are responsible for:

- Providing the Pensions Committee and the Council's executive officers with comparative information on the Fund's performance relative to other funds and the relative performance of different types of investments.

The Investment Adviser is responsible for:

- Advising on the investment strategy of the fund and its implementation;
- Advising on the selection of investment managers, and the custodian;
- Providing investment information, investment advice[1] and continuing education to the Pensions Committee and the executive officers;
- Independent monitoring of the investment managers and their activities.

The Investment Adviser is remunerated by way of time cost fees and fixed fees within an agreed annual budget.

The Auditor

- The Fund is audited annually by the auditors appointed by the Audit Commission. The financial year end is 31st March.

The Historic Position of Fund

The Fund is unlikely to be fully funded for several years. This has arisen for a number of reasons including:

- The reduction in the funding level to 75% of liabilities as a result of government regulations prior to the introduction of the community charge:
- The cost of the redundancy programme in the mid 1990's. *(Note that since 1998 redundancies and early retirements are a charge on departmental cost centres and external employers rather than the Pension Fund).*
- Overall investment returns since 1998 falling short of those anticipated in the funding strategy adopted from time to time.
- Longevity improving at a faster rate than anticipated.

At the last triennial valuation (at 31st March 2010) the funding ratio was 61%.

The Administering Authority is obliged to prepare a Funding Strategy Statement (FSS), which is published on the Council's web site at www.havering.gov.uk (select Services - select Council and Democracy - select Pension Fund). This outlines the method by which the Fund aims to return to an acceptable level of funding. This is expected to be achieved by a combination of increased contributions to the Fund, and achieving good long-term investment returns following the implementation of the new investment strategy in 2008.

[1] The Investment Adviser is authorised by and registered with the Financial Services Authority for the provision of investment advice.

Review

- The investment strategy is reviewed by the Pensions Committee, every three years following the actuarial valuation results and informally on an annual basis.
- The current review is based on the Actuarial Valuation 2007, a subsequent valuation in 2010 and an Asset/Liability study and ongoing advice on asset allocation from the Fund's Investment Adviser in 2008.

Reporting

The investment performance of the individual managers is reported to the Pensions Committee and Officers quarterly. Reports are received from the fund's performance measurers and investment advisers, along with executive summaries from each investment manager including details of any voting undertaken in that quarter.

Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

Funding risks**:**

- Financial mismatch – 1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. 2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. In 2008, following recommendations from the 2007 Actuarial Valuation and a full review of investment strategy commissioned from the Fund's investment adviser, the Pension Committee agreed to revise the investment strategy. The underlying allocation to growth assets following the review is: 75% in a mixture of equities, property and alternative assets with the remaining 25% in lower volatility bonds. Although this is not in line with a liability-matched position, it is intended to grow the value of the assets at a managed level of risk with reduced long-term costs for the Council.

The Committee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates

The Committee manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrains risk within the Committees' expected parameters. By investing across a range of assets, including quoted equities and bonds; the Committee has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

Investments

The powers and duties of the Fund to invest monies are set out in the Local Government Pension Scheme (Management & Investment Funds) Regulations 1998. The Fund is required to invest any monies which are not required to pay pensions and other benefits and in so doing take account of the need for suitable diversified portfolio investments and the advice of persons properly qualified (including officers) on investment matters.

Types of Investment

In broad terms investments may be made in accordance with the investment regulations in equities, fixed interest and other bonds and property and in the UK and overseas markets. The regulations specify other investment instruments may be used e.g. financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts, although historically it has not been the practice of the Fund to participate in these. Any limitations on the use of these instruments will be included within the Investment management Agreements (IMA's) or equivalent pooled fund rules.

The investment regulations also specify certain limitations on investments.

The Pensions Committee has set out control ranges and restrictions for the Fund's investments. These control ranges and restrictions have been considered when setting the benchmarks for each Manager.

Investment Management

The Investment Manager's are each bound by an investment management agreement (IMA) that takes account of:

- The benchmark set, and the allocation of assets within this benchmark;
- Cash needs;
- Risk tolerances;
- The policies on Corporate Governance and Socially Responsible Investment, given later in this document.

The Investment Manager must also select the appropriate types of investment as defined in the Regulations.

Investment Manager Controls

The Investment Managers are authorised and regulated by the Financial Services Authority (FSA), and must comply with the regulations contained within the Financial Services and Markets Act 2000 (FSMA 2000). Under these regulations, the manager must ensure that suitable internal operating procedures and risk frameworks are in place. FSMA is designed to provide a Fund such as this with an adequate level of protection, and the Investment Managers are obliged to meet their obligation imposed by this act.

The mandates set for the Investment Managers contain controls to ensure compliance with best practice and regulations. Controls on cash levels and transfers of cash and assets are also set within the IMA's or equivalent pooled fund rules.

Social Environmental and Ethical Considerations

> 'The Pensions Committee has considered socially responsible investment in the context of its legal and fiduciary duties, and the view has been taken that, while the non-financial factors should not drive the investment process to the detriment of the financial return of the Fund, it is appropriate for the Investment Manager to take such factors into account when considering particular investments.
>
> Over the longer term, the Pensions Committee requires the Investment Manager(s) to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. Beyond this, the Investment Manager(s) has full discretion with the day to day decision making.'

Corporate Governance and Voting Policy

Corporate Governance Policy

'The policy of the Havering Pension Fund is to accept the principles laid down in the Combined Code as interpreted by the Institutional Shareholders Committee 'Statement of Principles'.

In making investment decisions the Council will, through its Pension Fund Investment Manager(s), have regard to the economic interests of the Pension Fund as paramount and as such

1. Will vote at all general meetings of UK companies in which the Fund is directly invested.
2. Will vote in favour of proposals that enhance shareholder value.
3. Will enter into timely discussions with management on issues which may damage shareholders' rights or economic interests and if necessary to vote against the proposal.
4. Will take a view on the appropriateness of the structure of the boards of companies in which the Fund invests.
5. Will take a view on the appropriateness of the remuneration scheme in place for the directors of the company in which the Fund invests

Beyond this, the Council will allow its Investment Manager(s) full freedom with the day to day decision making.

The Pensions Committee will, where appropriate,

6. Receive quarterly information from the Investment Manager, detailing the voting history of the Investment Manager on contentious issues.
7. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.
8. Receive quarterly information from the Investment Manager, detailing new investments made.'

Stock Lending

The Committee has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the Committee has decided only to permit stock lending by the Fund's passive equity manager, State Street.

State Street has agreed to indemnify the Fund against any loss arising from insufficient collateral being posted as part of its stock lending programme.

The Committee will review its policy on stocklending from time to time.

Consultation and Publication

The Council has reviewed the Statement of Investment Principles in association with the Funds Investment Adviser and has also consulted with the employers of the fund, employee representatives and all fund managers through written correspondence.

A copy of this document together with the Myner's Statement of Compliance has been published on the Council's website www.havering.gov.uk (select Services - select Council and Democracy - select Pension fund).

The Statement of Investment Principles will be reviewed at least annually and a revised version issued as soon as any significant change occurs. Any comments and suggestions will be considered. Please contact the Pension Fund Accountant with your views at info@havering.gov.uk .

MYNERS Principles for Investment Decision Making

The Pensions Committee will regularly review the Scheme's compliance with this Statement of Investment Principles**.**

The Action the Council has taken to meet the recommendations made in the Myner's report has been updated to November 2011 and is available as an appendix to this statement.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
1. Effective decision-making **Administrating authorities should ensure that :**		**SUMMARY: FULLY COMPLIANT**
(a) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and	1) Administering authorities should have a designated group of elected members appointed to a committee to whom responsibility for pension fund activities have been assigned.	A designated group of elected members have been appointed to a Pensions Committee who are responsible for pension fund functions, as specified in the Council's constitution (Part 2 - Article 4).
(b) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest	2) Roles of the officers with responsibility for ensuring the proper running of the administration authority's and the committee's business should be set out clearly. The rules drawn up should provide a framework for the committee's code of business and include a process for the declaration of conflicts of interest.	Roles of the officers with responsibility for the running of the administrating authority's and the committee's business is specified in the Council's constitution (Part 3 - section 3). Declarations of interests are considered at the start of each committee meeting.
	3) The committee should be governed by specific terms of reference, standing orders and operational procedures that define those responsible for taking investment decisions, including officers and/or external investment managers.	The Pensions Committee is governed by specific terms of reference and is specified in the Council's constitution (Part 3), officer functions are also specified (Part 3).
	4) The process of delegation should be described in the constitution and record delegated powers relating to the committee. This should be shown in a public document, such as the statement of investment principles.	The delegation process for the running of the pension scheme is specified in the Council's constitution (Part 3). The Council's constitution is available via the Council's website at www.havering.gov.uk; follow links council and democracy, constitution. The Statement of Investment Principles (SIP) also includes the delegated functions to the Pensions Committee.
	5) In describing the delegation process, roles of members, officers, external advisors and managers should be differentiated and specified.	Roles of members, officers, external advisors and managers are specified in the SIP.
	6) Where possible, appointments to the committee should be based on consideration of relevant skills, experience and continuity.	Where possible, appointments made to the committee are based on consideration of relevant skills, experience and continuity.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	7) The committee should ensure that it has appropriate skills, and is run in a way designed to facilitate effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals. The adoptation of a training plan and an annual update of training and development needs would represent good practice to demonstrate that the committee is actively managing the development of its members. A statement should appear in the annual report describing actions taken and progress made.	Structured training of elected members ensures that members are proficient in investment issues. The Council incorporates training within its forward looking business plan for the fund. Forward looking business plan is presented at the first Pensions Committee meeting of the financial year and reported in the Pension Fund Annual Report. Members are in the process of completing the CIPFA's Knowledge and Skills self assessment of training needs. A strengthened training plan will be issued when the results of the self assessment has been collated.
	8) The committee review its structure and composition regularly and provide each member with a handbook containing committee's terms of reference, standing orders and operational procedures. It is good practice to establish an investment or other subcommittee to provide focus on a range of issues.	Council recommends that the membership of the Pensions Committee remains static for the life of their term in office to facilitate continuity and helps to maintains expertise within the committee. Elected members are provided with a copy of their roles and responsibilities. The committee has not established any subcommittees as the Pensions Committee focuses only on the activities of the pension fund.
	9) The committee may wish to establish subcommittees or panels to take responsibility for progressing significant areas of activity between meetings.	The Council does have a pension panel that exercises discretions within the LGPS and deals with the Internal Dispute Resolution Procedure regulations.
	10) The committee should obtain proper advice from suitably qualified persons, including officers. The CFO should assess the need for proper advice and recommend to the committee when such advice is necessary from an external advisor. The committee should ensure that it has sufficient internal and external resources to carry out its responsibilities effectively.	The Pensions Committee has appointed two advisors – Investment Advisor and Actuarial Advisor. The Pension Fund Accountant provides in house support to members. The Pension committee is also supported by the Council's pension administration and payroll sections. Internal and external resources are considered as part of the business plan.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	11) Allowances paid to elected members should be set out in a published allowances scheme and reviewed regularly.	Members of the Pensions Committee expenses are reimbursed in line with the Council's constitution (Part 6 -'Members Allowance Scheme')
	12) Employees appointed as member representatives should be allowed adequate time off from normal duties to attend meetings.	Havering Council's conditions of service permits special leave up to a number of specified days for employees who act as a member of publicly elected body.
	13) Papers and related documentation should be clear and comprehensive, and circulated to members of the committee sufficiently in advance of the meeting.	Committee policy established and ensures that target dates for report clearance and agenda dispatch targets are met. Members receives agendas five working days prior to meeting date.
	14) The **CFO** should be given the responsibility for the provision of a training plan and ensure that members are fully aware of their statutory & fiduciary duties.	The Training Plan is incorporated within the Business Plan and includes a log of training undertaken and attendance. Indicative future training plans are also included in the business plan.
	15) The **CFO** should ensure that a medium term business plan is created and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan should be submitted to the committee for consideration.	The Business Plan is considered by the Pensions Committee and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan also incorporates the training plan.
	16) Business plan to review the level of internal and external resources the committee needs to carry out its functions.	Medium term Business Plan is considered by the Pensions Committee. The business plan includes the outcome of an internal review of resources, when appropriate.
	17) Administrating Authorities are required to prepare, publish and maintain statements of compliance against a set of good practice principles for scheme governance and stewardship (Reg 31 2008 regulations).	The Pension Fund prepares, publishes and maintains a statement of compliance against a set of nine good practice principles. This statement shows the extent to which the administrating authority complies with the principles and is reviewed annually.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	18) Administrating authorities are required to publish a Governance Compliance Statement in accordance with CLG guidance.	The Governance Compliance Statement is available on the Council's website: www.havering.gov.uk (under Council and democracy, then Pension Fund) and is included in the Pension Fund Annual Report.
	19) The fund's Administration Strategy documents should refer to all aspects of the committee's activities relevant to the relationship between the committee and the employing authorities.	In line with regulations, the fund currently does not have an administration strategy; consideration of adopting this strategy is reviewed regularly.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
2. Clear objectives		**SUMMARY: FULLY COMPLIANT**
	The committee should:	As part of the Valuation process consideration is given, with full consultation of the fund's actuary, to :
(a) An overall investment objective (s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and these should be clearly communicated to advisors and investment managers.	1) demonstrate that in setting an overall objective of the fund it has considered: the fund's liabilities in the context of expected net contribution inflows; the adequacy of the fund's assets to meet its liabilities; the maturity profile of the fund's liabilities and its cash flow situation.	the fund's liabilities in the context of the expected net contribution inflows; adequacy of the assets to meet its liabilities; maturity profile and its cash flows;
	2) consider the nature of membership profiles and financial position of the employers in the fund and decide, on the advice of actuaries, whether or not to establish sub funds.	membership profiles; financial position of the employers and whether or not to establish a sub fund;
	3) seek to include the achievement of value for money and efficiency in its objectives and all aspects of its operation	value for money;
	4) with the **CFO** need to give consideration to the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The responsibility of the actuary to keep employer contribution rates as constant as possible over time is the primary means of achieving this.	and the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The Fund's investment policies and objectives are laid out in the Funding Strategy Statement (FSS).

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	5) consider its own appetite for risk and that of the employers in the fund when considering advice on the mix of asset classes and on active and passive management. Consider all assets classes currently available to members.	The Pensions Committee considers, in consultation with the fund's investment advisor, its own appetite for risk when setting the investment strategy and considers the mix of asset classes and weighs up the risk v return in considering whether the assets are managed on a passive or active basis. The Investment Strategy currently includes a mix of different asset classes which are managed actively and passively.
	6) take proper advice and should appoint advisors in open competition and set them clear strategic investment performance objectives. The committee should state how the advisors' overall performance will be measured and the relevant short, medium and longer term performance measurement framework. All external procurement should be conducted within the EU procurement regulations and the administrating authority's own procurement rules.	The Pensions Committee appoints external advisors in line with EU procurement rules and the administrating authorities own procurement rules. The committee states how performance is to be measured for the advisors and a service review is undertaken and reported to the committee annually. The contract for the external advisor is tendered on a five year cycle enabling performance to be measured in a competitive environment.
	7) also demonstrate that it has sought proper advice, including from specialist independent advisors, as to how this might be expressed in terms of the expected or required annual return on the fund and how it should be measured against stated benchmarks.	After full consultation with the Council's Actuary and Investment Advisers a clear financial and therefore fully measurable investment objective for the fund has been set.
	8) consider when it would be desirable to receive advice based on an asset/liability study and make appropriate arrangements.	Following the 2007 Valuation the Pensions Committee commissioned the fund's investment advisor to undertake an asset liability study, the results of which were used in formulating the current and ongoing investment strategy

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	9) evaluate the split between equities and bonds before considering any other asset class. It should state the range of investments it is prepared to include and give reasons why some asset classes may have been excluded. Strategic asset allocations decision should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objectives.	All asset classes were considered as part of the investment strategy review process and the range of investments are included in the Fund's SIP.
	10) have a full understanding of the transaction-related costs incurred, including commissions, and have a strategy for ensuring that these costs are properly controlled.	Fund managers report periodically on transaction costs. Transaction costs are collated and disclosed in the statement of accounts.
	11) Understanding transaction-related costs should be a clear consideration in letting and monitoring a contract and where appropriate, independent and expert advice should be taken, particularly in relation to transition management.	Understanding transaction costs are considered and where appropriate expert advice would be sought.
	12) The use of peer group benchmarks should be for comparison purposes only and not to define the overall fund objective.	The committee uses the services of WM Performance Measurers for independent monitoring of performance against benchmarks. Peer group benchmark performance is used for comparison purposes only.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
3. Risk and liabilities		**SUMMARY: MAJORITY COMPLIANT**
a) In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.	The committee should:	
b) These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	1) set an overall investment strategy for the fund that: represents its best judgement of what is necessary to meet the fund's liabilities given its understanding of the contributions likely to be received from employer (s) and employees; takes account of the committee's attitude to risk, and specifically its willingness to accept underperformance due to market conditions.	A full investment strategy review was carried out following the actuarial valuation results in 2007 and reassessed following the 2010 Valuation results. The fund has formulated its own asset allocation based on identified liabilities particular to the fund; this was determined as a result of asset liability modelling exercise undertaken by the funds' investment advisors in 2008. The fund investment strategy was adopted having considered the members attitude to risks and are covered in the SIP and FSS.
	2) ensure that its investment strategy is suitable for its objectives and takes account of the ability to pay of the employers in the fund.	
	3) consider the extent to which the cash flow from the fund's assets should attempt to match the liabilities and the relevant timing. It should also consider the volatility of returns it is prepared to accept.	
	4) be aware of its willingness to accept underperformance due to market conditions. If performance benchmarks are set against relevant indices, variations in market conditions will be built in, and acceptable tolerances above and below market returns will be stated explicitly. Benchmarks are likely to be measured over periods of up to seven years.	The Fund in aggregate has a liability related benchmark (strategic benchmark). However for individual mandates, the fund managers have a specific benchmark (tactical benchmark) and a performance target that may be based on broad indices or composites. The targets are shown in the Fund's SIP.
	5) believe that regardless of market conditions, on certain asset classes, a certain rate of return is acceptable and feasible.	Expected returns for individual asset classes were considered when choosing investments and are shown in the SIP.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	6) state whether a scheme specific benchmark has been considered and established and what level of risk, both active and market risk, is acceptable to it.	Also included in the SIP is the acceptable measure of risk on the returns.
	7) receive a risk assessment in relation to the valuation of its liabilities and assets as part of the triennial valuations. Where there is reasonable doubt during performance monitoring of the fund about valuation of assets and liabilities the CFO should ensure that a risk assessment is reported to the committee, with any appropriate recommendations for action to clarify and/or mitigate the risks.	The fund receives a risk assessment as part of the Valuation process with full consultation of the fund's Actuary. Performance is monitored and reported to the committee on a quarterly basis and includes recommendations for action where appropriate. Liabilities are only considered as part of the triennial valuations; however cash flow is monitored monthly and reported to committee quarterly.
	8) at the time of the triennial valuations, analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities. The committee should also ask this question of its actuaries and other advisors during discussions on performance.	
	9) use reports from internal and external auditors to satisfy itself about the standards of internal control applied to the scheme to its administration and investment operations. Ensuring effective internal control is an important responsibility of the **CFO.**	The external auditors opinion is included in the Pension Fund Annual Report. Internal control audits for pensions are undertaken annually by internal auditors and are reported to Audit Committee. Any identified issues would be reported to the Pensions Committee. Audited Internal Control reports are submitted by the Investment Managers and checked by officers for matters of concerns.
	10) The fund's Statement of Investment Principles should include a description of the risk assessment framework used for potential and existing investments.	The Pension Fund's Statement of Investment Principles includes a description of the risk assessment framework.
	11) Objectives for the overall fund should not be expressed in terms that have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.	Objectives for the overall fund are set having regard to: the advisability of investing fund money in a wide range of investments; the suitability of particular investments and types of investments and the results of asset/ liability modelling.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	12) The Annual Report of the pension fund should include an overall risk assessment in relation to each of the fund's activities and factors expected to have an impact on the financial and reputational health of the fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of any residual risk.	The Pension Fund currently does not have an overall risk assessment in the form of a risk register, although ongoing risks are considered as part of the monitoring process. **ACTION**: Monitoring risk in the form of a risk register is under consideration.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
4. Performance assessment	**Investments**	**SUMMARY: MAJORITY COMPLIANT**
a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors	The committee should:	
b) Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision- making body and report on this to scheme members	1) explicitly consider, for each asset class invested, whether active or passive management would be more appropriate; where it believes active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies; if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection.	During the investment strategy review the Pension Fund considered and adopted its own asset allocation in full consultation with the fund's investment advisors, it considered and initially adopted full active management with appropriate targets and risk controls set. In light of the market events that followed, the Pensions Committee, after assessing the risks, agreed to reduce some of the active management and switch to passive management in relation to UK and oversees equities.
	2) explicitly consider, in consultation with its investment manager (s), whether the index benchmarks are appropriate, and in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies	Benchmarks are set in agreement with the fund's investment manager (s)
	3) Where active management is selected, divergence from a benchmark should not be so constrained as to imply index tracking (i.e. passive management) or so wide as to imply unconstrained risk.	

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	4) Performance targets in relation to benchmark should be related to clear time periods and risk limits and monitoring arrangements should include reports on tracking errors.	Performance monitoring reports are presented to the committee quarterly and covers the latest quarter, rolling one year and three year performance. Where appropriate fund managers will report tracking errors. Each Fund Manager presents their performance reports to the committee on alternate quarters, on each alternate quarters they meet with officers. This is with the exception of the passive equity manager and the absolute return manager who reports to officers and the committee twice a year.
	5) Although returns will be measured on a quarterly basis a longer time frame (three to seven years) should be used to assess the effectiveness of the fund management arrangements and review the continuing compatibility of the asset/liability profile.	The asset /liability profile is considered at each triennial valuation.
	6) Investment activity in relation to benchmark should be monitored regularly to check divergence and any impact on overall asset allocation strategy.	In addition to officer reports, the investment adviser monitors and reports quarterly to the Pension Committee on performance, personnel, process and organisational issues of fund managers. The fundamental risk of the investment strategy not delivering the required – net of fee- return is measured quarterly in terms of the overall financial objective.
	7) Returns should be obtained from specialist performance agencies independent of the fund managers.	The Pension Fund uses the services of WM performance measurers who independently report against the overall fund and individual manager returns on a quarterly basis. WM returns are monitored against fund manager returns and discrepancies are investigated. WM also produce an annual performance report.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	8) Investment manager returns should be measured against their agreed benchmark and variations should be attributed to asset allocation, stock selection, sector selection and currency risk, all of which should be provided by an independent performance measurement agency	Each quarter, WM measure fund manager returns against their agreed benchmarks and variations are attributed to asset allocation and stock selection. Relative risk is also measured and the degree of the manager deviating from the benchmark is included in the WM report.
	9) In addition to the overall fund returns the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed (e.g. equities by country, fixed interest by country and type etc).	The Pension Fund does not measure fund returns on an asset class basis because the focus is on how individual manager performance contributes to the overall fund performance. However the weightings in each asset class are monitored and reported.
	10) The use of peer group benchmarks (such has CIPFA/WM) may not be appropriate for directing a mandate of a manager insofar as they infer a common asset liability structure or investment requirement. Such benchmarks can be used for comparative information.	WM performance returns against peer group benchmarks are used for comparison purposes only.
	11) The mandate represents the instruction to the manager as to how the investment portfolio is to be managed, covering the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.	The mandate agreed with the investment manager includes how it is to be managed and covers the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.
	Advisors 12) The committee should devise a performance framework against which to measure the cost, quality and consistency of advice received from its actuaries. It is advisable to market test the actuarial service periodically.	Annual service assessments are undertaken for the services provided the Fund's actuary and advisors. They are measured against a set of criteria adopted by the Pension Committee.
	13) It is necessary to distinguish between qualitative assessments (which are subjective) and quantitative reviews which require the compilation of series of data and are therefore more long term by nature.	

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	14) Consultants should be assessed on a number of issues including the appropriateness of asset allocation recommendations, the quality of advice in choosing benchmarks and any related performance targets and risk profiles. The quality and appropriateness of the investment managers that are recommended and the extent to which advisors are proactive and consistent in recommending subsequent changes.	
	15) When assessing managers and advisors it is necessary to consider the extent to which decisions have been delegated and advice heeded by officers and elected members	
	Decision-making bodies 16) The process of self assessment involves both officers and members of the committee reviewing a range of items, including manager selection, asset allocation decisions, benchmarking decisions, employment of consultants and best value outcomes;	Pensions Committee performance is reviewed as part of the Annual Report. Performance can be measured by the success or otherwise of the strategy put in place and the individual performance of investment managers appointed by the committee, and full compliance with governance requirements including attendance at all training sessions.
	17) the objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved.	
	18) The committee should set out its expectations of its own performance in its business plan. This could include progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to administration of the committee's business such as:	The Business Plan sets out the expectations of the committee.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	19) attainment of standards set down in CIPFA's soon to be published knowledge and skills framework; achievement of required training outcomes; achievement of administrative targets such as dates for issuing agendas and minutes.	Achievement of training outcomes are self assessed by the Pensions Committee. Targets such as dates for issuing agendas and minutes are strictly adhered to or reports are not presented (unless exceptional circumstances). **ACTION**: The pensions committee members are currently in the process of completing the Knowledge and Skills Framework self assessment forms, the results will be feed into the training plan.
	20) This assessment should be included in the fund's Annual Report.	The assessment of the committee expectations and training are included in the Annual Report

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
5. Responsible ownership **Administrating authorities should:**		**SUMMARY: FULLY COMPLIANT**
a) adopt, or ensure their investment managers adopt, the Institutional Shareholders' committee Statement of Principles on the responsibilities of shareholders and agents	1) Policies regarding responsible ownership must be disclosed in the statement of investment principles which must be contained the annual report.	Policies on Social Environmental and ethical considerations are disclosed in the SIP, a copy of which is also included in the Pension Fund Annual Report.
b) include a statement of their policy on responsible ownership in the statement of investment principles	2) Responsible ownership should incorporate the committee's approach to long term responsible investing including its approach to consideration of environmental, social and governance issues.	The Pension Committee has considered socially responsible investments and the view has been taken that non-financial factors should not drive the investment process to the detriment of the financial return of the fund.
c) report periodically to scheme members on the discharge of such responsibilities.	3) The committee should discuss the potential for consideration of environmental, social and governance issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performances.	Over the long term, the Pensions Committee requires the investment mangers to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance.
	4) Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues e.g. LAPFF.	
	5) It is important to ensure that through the terms of an explicit strategy that an authority's policies are not overridden, negated or diluted by the general policy of an investment manager.	The SIP is distributed to fund managers so that they are aware of the overall strategy. Fund managers are included in the consultation process if there are major changes.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	6) Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisors to assist compliance in engagement. Measuring effectiveness is difficult but can only be achieved by open monitoring of action taken	Fund managers have been given delegated authority to vote in accordance with their proxy voting policies. Voting activity is reported quarterly and made available for the Pensions Committee to review.
	7) The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the committee's policy.	Consideration of compliance will need to be given for future appointments. For existing investment managers, where applicable they are compliant or work is well underway to becoming compliant.
	8) The committee should ensure that investment consultants adopt the institutional shareholder committee (ISC) statement of practice relating to consultants.	The ISC is a **voluntary** code of practice and applies to institutional investors on a comply-or-explain basis. Currently all but one of the funds investment consultants have adopted the voluntary code.
	9) The ISC's Statement of Principles on the responsibilities of shareholders and agents sets out best practice in relation to their responsibilities in respect of investee companies, in that they will: set out their policy on how they will discharge their responsibilities; monitor the performance of, and establish, where necessary, a regular dialogue with investee companies; intervene where necessary; evaluate the impact of their engagement and report back to clients and beneficial owners.	
	10) The United Nations Environment Programme Finance Initiative (UNEP FI) has published Principles for Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the principles	

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
6. Transparency and reporting **Administrating authorities should:** **a) act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives** **b) provide regular communication to scheme members in the form they consider most appropriate.**	The committee should:	**SUMMARY: FULLY COMPLIANT**
	1) ensure that its Governance Compliance Statement is maintained regularly. It should actively challenge any non-compliance and be very clear about its reasons for this and be comfortable with the explanations given.	The Governance Compliance Statement is considered and reviewed by the Pensions Committee on an annual basis. Any non-compliance is reported and necessary actions included.
	2) have a comprehensive view of who its stakeholders are and the nature of the interests they have in the scheme and the fund. There should be a clearly stated policy on the extent to which stakeholders will take a direct part in the committee's functions and those matters on which they will be consulted.	The Governance Compliance Statement includes a statement on the extent to which stakeholders will take a direct part in the Pensions Committee's functions. Stakeholders are consulted and notified on major strategic and legalisation matters.
	3) build an integrated approach to its own governance and to communicating this and all other aspects of its work to its stakeholders.	The work of the Pensions Committee is publicly available on the Councils website at www.havering.gov.uk, follow links for council & democracy, committees, then pension committee. There is also a dedicated page on the Council's website for the pension fund under the page for council and democracy and how the work is communicated to its stakeholders is included in the fund's Communication Strategy.
	4) seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. The full range of available media should be considered and used as appropriate.	Havering has undertaken partnership working with the London Pension Fund Authority who have developed a website to enable pension sharing best practices across the London boroughs at www.yourpension.org.uk. Havering Pension Fund is also members of the CIPFA Pensions Network and the London Pension Fund Forum which are good sources of sharing best practices.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	5) compare regularly its annual report to the regulations setting out the required content and, if the report does not fully comply with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible.	The required content of the Annual Report complies with that stated in the LGPS (Administration) Regulations 2008.
	6) The Funding Strategy (FSS), the Statement of Investment Principles (SIP) and the Governance Compliance Statement are core source documents produced by the fund to explain their approach to investments and risks.	The FSS, the SIP and the Governance Compliance Statement are available on the Council's website at www.havering.gov.uk and are included on a dedicated page for the Pension Fund under the link for council and democracy. This page also includes the pension fund's Communication Strategy. Where applicable reference to all these documents is made in other publications.
	With regard to the FSS and SIP, they should: 7) contain delegation process and the roles of officers, members, external advisors and managers should be differentiated. The process by which the overall fund allocation process has been determined and include reference to assumptions as to future investment returns; mandates given to managers should describe fees structures, scale of charges, whether ad valorum or fixed, performance element built in, stating the implications for risk control; copies should be made available and its availability made clear in publications.	The policies includes: the delegation process and the roles of officers, members, external advisors and managers are differentiated; the process by which the fund allocation process has been determined and includes references to assumptions on future returns; mandates given to each manager are described, including fees; and implications for risk control.
	With regard to the Governance Compliance Statement it must include:	
	8) information on whether administrating authority delegates, the whole or part function; if it does delegate must state frequency of meetings, terms of reference, structure and operational procedures. It must also include whether the committee includes representatives of employing authorities and if so, whether they have voting rights.	The Governance Compliance Statement includes information on the administering authorities delegation process and functions delegated to the Pensions Committee. It also includes the frequency of meetings, terms of reference, structure and operational procedures.

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	9) details of the extent to which it complies with CLG guidance. Where the statement does not comply, reasons must be given. A copy of the statement must be sent to the CLG.	The Governance Compliance Statement also includes a table which shows the extent of compliance with CLG guidance and a copy has been sent to the CLG.
	With regard to the fund's Communication Strategy it must:	
	10) set out the administering authority's policy on: the provision of information and publicity about the scheme to members, representatives of members and employing authorities; the format, frequency and method of distributing such information or publicity; the promotion of the scheme to prospective members and their employing authorities.	The Communication Statement includes: the administrating authorities policy on provision of information and publicity about the scheme, it also includes the format, frequency and method of distribution of such information.