



Haverling

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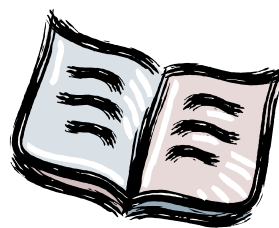
HAVERING PENSION FUND ANNUAL REPORT MARCH 2016

Pensions Regulator
Registration Number
10027841

Financial Services
Town Hall
Main Road
Romford, Essex, RM1 3BB

Tel: 01708 432217
Fax: 01708 432162

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Trustee Report

Foreword to the Annual Report of the Havering Pension Fund for the year ended 31st March 2016

During the year the Pensions Committee dealt with several key issues, which are listed on pages 42-43 of the report and its members attended a number of associated training and development seminars, which are similarly listed on pages 38-39.

In addition to highlighting the work of the Pensions Committee, an overview of the activities of the Pension Administration team is contained on pages 16-19 of the report.

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 value of the Fund as at 31st March 2016 was £572m, a slight decrease on the previous year end valuation of £575m.

The overall return on the Fund's investments (expressed in percentage terms) was -1.2%. Further information on the Fund's investment performance can be found on pages 25-26 of this report.

The Council agreed to participate in the London Collective Investment Vehicle (LCIV) and following the Budget announcement in the summer of 2015 the LCIV has gained momentum during 2016 in appointing commonly shared investment managers to its pool. Havering held assets with one of these managers and assets were transferred to the LCIV during February 2016. The expectation is that investment pools will begin to be used for collective investment from April 2018 onwards, however since March 2016 another two managers used by our Fund have been appointed to the LCIV and assets with these managers have since been transferred, representing approximately 25% of the Fund's Assets now under management with the LCIV. We will continue to work with the LCIV to transition other assets as and when Fund Managers are appointed and the mandates meet the Fund's investment strategy goals.

In conjunction with our fund managers we will be monitoring events following the referendum result to leave the European Union as it will most likely take some time for the full implications to be realised but we would expect stock markets to still be very volatile.

We continue to look forward to working closely with the Local Pension Board as it works towards achieving its primary objective, assisting the scheme manager in ensuring compliance with regulations and legislation relating to governance and administration.

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 84.



Councillor John Crowder
Chairman – Pensions Committee

INTRODUCTION

The Authority 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 Authority's consolidated accounts and has established a separate bank account.

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

Scheme Details

A new Career Average Revalued Earnings (CARE) Scheme being introduced from 1 April 2014.

Members of the LGPS belong to a scheme which currently provides high quality pension benefits. Since the introduction of the CARE scheme pensions build up at 1/49th of actual pensionable pay for members of the main section of the scheme and 1/98th for members who elect to be in the 50/50 section. This pension builds up on a yearly basis and is revalued in line with CPI (Consumer Price Index). For membership prior to 1st April 2014 pension is based on the best of the last three year's pensionable pay (whole time equivalent pay) and actual scheme membership (reckonable service). Because the scheme is a defined benefit scheme, members' benefits are calculated strictly in accordance with the Regulations and are not subject to changes generally affecting the fund assets. The scheme is contracted out of the State Second Pension. This means that any pension paid from the Local Government Pension Scheme must be at least equal to the GMP (Guaranteed Minimum Pension) otherwise provided by SERPS (State Earning Related Pension Scheme) to 5 April 1997.

For all leavers and retirees all pensions are increased annually in line with the CPI under the pension increase review order.

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.

The scheme is open to all local authority employees (except teachers) who have their own schemes and for employees of other eligible bodies. Admitted bodies currently have "closed" membership, although the decision on whether membership is "open" or "closed" rests with the incoming employer subject to risk review for the Pension Committee. All eligible employees who have a permanent or temporary contract of three months or more are contractually enrolled in the fund from the first day of employment. Any member of the scheme can opt out by completing an opt out form available from the pension website www.yourpension.org.uk/handr. The opt out process fully complies with the Automatic Enrolment legislation which is currently being implemented when Scheme Employers reach their staging dates. A pension officer has been supporting the Automatic Enrolment process with all Scheme Employers.

A summary of the benefits of the LGPS are shown below. Further details of the specific conditions and detailed benefits can be obtained from Exchequer and Transactional Services and the Pensions website at www.yourpension.org.uk/handr.

The core benefits of the scheme are:

- A pension based on final pay and the length of service in the scheme for membership prior to 1st April 2014, plus a CARE pension based on 1/49th or 1/98th of each year actual pensionable pay for membership from 1st April 2014.
- The ability to provide a tax-free lump sum by commutation of pension. Members of the scheme prior to 1 April 2008 have a tax free lump of approximately three times the pension accrued based on service to 31 March 2008.
- Life assurance of three times the member's assumed pensionable pay.
- Pensions for spouses, civil partners, eligible cohabiting partners and eligible children.
- An entitlement paid early if a member has to stop work due to permanent ill health.

- Pensions increase in line with CPI.
- Pensions are payable from age 55, including flexible retirement.

The cost of membership:

- Employees pay a tiered contribution based on actual pensionable pay of between 5.5% and 12.5%, or half this rate for 50/50 section members.
- Employers also pay a contribution towards the pension costs. This amount is decided every three years following an independent actuarial evaluation by the Fund's Actuary. In 2015/16 the contribution rates for employers in the Havering Pension Fund range from 17.3% to 28.8% based on the valuation as at 31 March 2013.

LGPS 2014 Career Average Revalued Earnings (CARE) Scheme

The new CARE scheme was implemented on 1 April 2014. The main changes in the scheme are:

- **Pension builds up in a new way**

Each year in the new scheme the member will build up a pension equal to 1/49th of their actual pensionable pay in that year. There will also be annual inflation increases, so the pension account keeps up with the cost of living each year. The 2008 LGPS Scheme is a final salary scheme based on final full time equivalent pensionable pay at leaving with an accrual rate of 1/60th, which is calculated at the point of leaving with inflation increases added from this time. For service accrued prior to 31 March 2014, pension benefits will be calculated in line with preceding regulations.

- **Pensionable pay**

Under the CARE scheme pensionable pay includes all non-contractual overtime plus additional hours for part time staff, with employer contributions being payable on these elements as well. Previously pensionable pay excluded non-contractual overtime and additional hours.

- **Changes to the normal pension age**

For pension building up from 1 April 2014 the scheme's normal pension age will be the same as the state pension age, with 65 as the earliest age. Scheme members can find out their state pension age from www.gov.uk/calculate-state-pension.

- **More flexibility around when a member can leave and take their pension**

Members will be able to choose to leave and draw their pension anytime from age 55 – but the longer they work the more their pension will be. It will be reduced if they retire before their normal pension age and increased if they retire later.

- **Employee contribution band**

The employee contribution bands range from 5.5% to 12.5%. The applicable band for members will be based on their actual pay rather than full time equivalent, with actual pay now including non-contractual elements such as overtime.

Further details of the new scheme can be found in the factsheet link [here](#).

Management and Financial Performance Report

SCHEME MANAGEMENT AND ADVISERS

Day to day management of the Fund is delegated to the authority's section 151 officer (currently the Chief Executive). Investment strategy and performance monitoring of the Fund is a matter for the Pensions Committee which obtains and considers advice from the Authority's officers, and as necessary from the Fund's appointed professional adviser, actuary and performance measurers who attend meetings as and when required.

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

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

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

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

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

The Pension Board consists of 2 employer representatives and 2 scheme member representatives. A Chair was appointed by the employer and scheme member representatives of the Board from amongst their own number and will serve on a rotating basis with the term of office shared between an employer and a scheme member representative on an equal basis.

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 produces reports on the accounting value of assets held.

The membership of the Pensions Committee reflects the political balance of the Council and therefore the members of the Pensions Committee are as follows:

Cllr John Crowder (Chair) – Conservative Group
Cllr David Johnson (Vice Chair) – UKIP
Cllr Melvin Wallace - Conservative Group
Cllr Roger Westwood – Conservative Group
Cllr Ray Morgon – Residents' Group
Cllr Stephanie Nunn – Residents' Group
Cllr Clarence Barrett – East Havering Residents' Group
Union Members (Non-voting) - John Giles (Unison), Andy Hampshire (GMB)
Admitted/Scheduled Body Representative (voting) – Heather Foster-Byron – Employer Representative

From May 2015 Cllr Ray Morgon replaced Cllr John Mylod - Residents Group

From May 2016 Cllr Nic Dodin replaced Cllr Ray Morgon - Residents Group and Cllr Jason Frost replaced Cllr Roger Westwood – Conservative Group



Cllr John Crowder
Chair

Conservative Group



Cllr David Johnson
Vice Chair

UKIP



Cllr Melvin Wallace

Conservative Group



Cllr Roger Westwood

Conservative Group (May 14 to
May 16)



**Cllr Stephanie
Nunn**

Residents' Group



Cllr Clarence Barrett

East Havering Residents' Group



Cllr Ray Morgon

Residents' Group
(May 15 to May 16)



Cllr Nic Dodin

Residents' Group (from
May 16)



Cllr Jason Frost

Conservative Group
(from May 16)

The terms of reference for the Pensions Committee are:

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

| | |
|------------------------------------|--|
| Fund Administrator | London Borough of Havering, Town Hall, Romford, RM1 3BD |
| Fund Actuary | Hymans Robertson |
| Auditors | PricewaterhouseCoopers LLP (PwC) |
| Custodians | State Street Global Services |
| Investment Managers | Royal London Asset Management (Investment Bonds) UBS (Property) Ruffer LLP (Multi Asset) State Street (Passive UK/Global Equities) Baillie Gifford (Global Equities) Baillie Gifford Diversified Growth Fund (Multi Asset) GMO Global Real Return (UCITS) from January 2015 London CIV from November 2015 |
| 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 |
| Chief Executive | Andrew Blake-Herbert |
| Pension Fund Accountant | Debbie Ford |
| Pensions Administration Management | Sarah Bryant Director of Exchequer & Transactional Services |
| Local Pension Board - | Employer representatives: Justin Barrett – Redden Court School Me David Holmes – Havering College of Further and Higher Education Scheme Member representatives: Mrs Marshajane Thompson Mr Mark Holder |

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
ELUTECH College of Design and Engineering (transferred out 1 September 2015)

Secondary Schools:

Drapers' Academy (Academy from 1 September 2010)
Abbs Cross Academy and Arts College (Academy from 1 April 2011)
The Brittons Academy Trust (Academy from 1 April 2011)
Coopers' Company & Coborn School (Academy from 1 April 11)
The Albany School (Academy from 1 August 2011)
The Champion School (Academy from 1 August 2011)
Hall Mead School (Academy from 1 August 2011)

Sacred Heart of Mary Girls' School (Academy from 1 August 2011)
St Edward's Church of England School & Sixth Form (Academy from 1 August 2011)
Emerson Park Academy (Academy from 1 September 2011)
Redden Court School (Academy from 1 September 2011)
The Frances Bardsley Academy for Girls (Academy from 1 July 2012)
Bower Park Academy (Academy from 1 February 2013)
The Chafford School (Academy from 1 November 2013)

Primary Schools:

Upminster Junior Academy (Academy from 1 November 2012)
Upminster Infant School (Academy from 1 November 2012)
Langtons Junior Academy (Academy from 1 April 2013)
Oasis Academy Pinewood (Academy from 1 October 2013)
Drapers' Brookside Junior School (Academy from 1 June 2014)
Rise Park Infant School (Academy from 1 September 2014)
Rise Park Junior School (Academy from 1 September 2014)
Pyrgo Priory Primary School (Academy from 1 February 2015)
NEW: Dycorts School (Academy from 1 September 2015)
NEW: Drapers' Maylands Primary School (Academy from 1 September 2015)

Admitted Bodies:

Havering Citizens' Advice Bureau (ceased 19 September 2015)
Sports and Leisure Management Ltd – Fitness and Health
Sports and Leisure Management Ltd – Charitable Trust
Sports and Leisure Management Ltd – Food & Beverage
KGB Cleaners (ceased 1 August 2015)
Family Mosaic (joined 1 November 2012)
Sodexo Catering (joined 1 January 2014 – pending legal agreement)
Breyer Group Repairs (joined 1 March 2014 - pending legal agreement)
Breyer Group Voids (joined 1 June 2014 – pending legal agreement)
NEW: Caterlink (joined 1 September 2015)
NEW: Accent Catering Services (joined 1 September 2015 – pending legal agreement)

The Havering Pension Fund also has the following bodies:

Designated Bodies:

Trust Schools

Corbets Tey Special School

Foundation Schools:

Marshall Park School (Foundation from 1 September 2011)
The Royal Liberty School
Sanders School
The Mawney School

Voluntary Aided Schools:

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

RISK MANAGEMENT

Overall

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

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

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

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

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

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

Governance Risk

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

Investment Risk

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

Fund Managers

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

Benefits Administration

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

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

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

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

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

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

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

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

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

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

- Failure to effectively enrol new employers/members – impacts on cash flow and leads to possible litigations
- Pension Fund payment Fraud – damaging the Authority’s reputation and leading to potential financial loss

It should be recognised that it may not be possible to eliminate all risks but accepting and actively managing risk is crucial to the proper governance of the fund. All risks will be regularly reviewed to ensure that they remain relevant and that the controls are in place to manage risks where feasible.

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

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

These measurements of risk are then scored as follows:

- **Inherent Risk Score:** The inherent risk score is the assessment of a risk in terms of impact and likelihood, without consideration of the mitigations in place.
- **Residual Risk Score:** This is the assessment of the risk, at the current point in time, having considered the mitigations in place.

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

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

Business Continuity Plan

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

FINANCIAL PERFORMANCE

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

The Pensions Administration service consists of an establishment of 9.1 full time equivalent posts.

The Finance service that supports the pension fund consists of an establishment of 2 full time equivalent posts (all in post).

In June 2014 the Chartered Institute of Public Finance and Accountancy (CIPFA) produced guidance on how to account for Management costs in order that improvements in cost comparisons can be made across all funds. Therefore Management costs have now been split to introduce a third category of costs. The tables that follow have now been reanalysed to include the three categories of costs as defined by CIPFA:

Administrative Expenses

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

| | 2014/15 Actual £000 | 2015/16 Estimate £000 | 2015/16 Actual £000 | 2016/17 Estimate £000 | 2017/18 Estimate £000 | 2018/19 Estimate £000 |
|-----------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|
| Administration & Processing | 411 | 356 | 429 | 430 | 430 | 430 |
| Other Fees | 7 | 6 | 6 | 6 | 6 | 6 |
| Other Costs | 32 | 32 | 77 | 80 | 80 | 80 |
| TOTAL | 450 | 394 | 512 | 516 | 516 | 516 |

Investment Management Expenses

These costs will include any expenses incurred in relation to the management of Fund assets. Fees are calculated based on market values under management and therefore increase or reduce as the value of investments change. The 2014/15 figure has been restated to reflect adoption of CIPFA's Guidance on Management costs.

| | 2014/15 Actual (restated) £000 | 2015/16 Estimate £000 | 2015/16 Actual £000 | 2016/17 Estimate £000 | 2017/18 Estimate £000 | 2018/19 Estimate £000 |
|----------------------------------|---|-----------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|
| Fund Manager Fees | 2,571 | 900 | 2,743 | 2,700 | 2,700 | 2,700 |
| Custodian Fees | 34 | 35 | 40 | 40 | 40 | 40 |
| Performance Measurement services | 13 | 13 | 13 | 13 | 13 | 13 |
| TOTAL | 2,618 | 948 | 2,796 | 2,753 | 2,753 | 2,753 |

Governance and Oversight

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

| | 2014/15 Actual £000 | 2015/16 Estimate £000 | 2015/16 Actual £000 | 2016/17 Estimate £000 | 2017/18 Estimate £000 | 2018/19 Estimate £000 |
|---------------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|
| Financial Services | 142 | 142 | 142 | 142 | 142 | 142 |
| Actuarial Fees | 28 | 28 | 35 | 50 | 30 | 30 |
| Audit Fees | 20 | 20 | 21 | 21 | 21 | 21 |
| Member Training | 2 | 0 | 0 | 10 | 10 | 10 |
| Adviser Fees | 61 | 50 | 50 | 50 | 50 | 50 |
| CIV/SAB Levy | - | - | 76 | 30 | 30 | 30 |
| Local Pension Board | 13 | 13 | 11 | 15 | 15 | 15 |
| Pensions Committee | - | - | 20 | 20 | 20 | 20 |
| TOTAL | 266 | 253 | 355 | 338 | 318 | 318 |
| OVERALL MANAGEMENT TOTAL | 3,334 | 1,595 | 3,663 | 3,607 | 3,587 | 3,587 |

Please note the following regarding the above figures

- Takes no account of any inflationary increases
- Management and custody fees are charged according to the fund value; therefore an average figure has been applied for 2016/17 onwards.

- Based on 2015/16 fund and staffing structures.
- Member Training will be shared between the Pensions Committee and the Local Pension Board.

Cash Flow Management

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

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

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

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

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

| 2014/15 Income | 2014/15 Benefit Payments | Net | | 2015/16 Income | 2015/16 Benefit Payments | Net |
|-------------------|--------------------------------|--------------|---------------------------|-------------------|--------------------------------|---------------|
| (32.9) | 29.4 | (3.5) | Predictable | (33.1) | 29.4 | (3.7) |
| (6.0) | 7.6 | 1.6 | Unpredictable | (10.4) | 8.8 | (1.6) |
| (38.9) | 37.0 | (1.9) | Total | (43.5) | 38.2 | (5.3) |
| | | (5.7) | Balance b/f | | | (7.6) |
| | | (7.6) | Total Cash Balance | | | (12.9) |

The cash flow policy adopted by the Pension Fund sets out that should the cash level fall below the set de minimis then this should be topped up in the first instance by using investment income. In the event that cash levels rise above the set upper limit, cash will be invested in the most underweight asset allocation within the investment strategy. When the cash flow policy was revised in December 2015 a discretion was introduced that allows the Chief executive to exceed the thresholds to meet unforeseeable volatile unpredicted payments (e.g. impact on the Pension Fund for restructures)

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

Details about the financial assumptions used by the Actuary can be found within the Valuation Report 2013, which is available on the Authority's website and can be found by selecting the link to the [Havering Pension Fund here](#).

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

Invoices raised, and amounts recovered, since 2011/12 relating to recoverable overpayments of pension to deceased and child members of the scheme are set out in the table below.

| Year debt raised | Amount of debt raised £ | Debt collected £ | Debt outstanding £ |
|-------------------------|------------------------------------|-----------------------------|-------------------------------|
| 2011/12 | 12,659 | 9,575 | 3,084 |
| 2012/13 | 8,927 | 6,837 | 2,090 |
| 2013/14 | 5,211 | 1,946 | 3,265 |
| 2014/15 | 9,901 | 4,958 | 4,943 |
| 2015/16 | 10,384 | 6,195 | 3,803 |

The Authority has always subscribed to the National Fraud Initiative (NFI). For pensions this involves identifying any deceased members of the LGPS and any pension abatements not already known to the Pensions Administration Team. The last exercise to provide the base data to NFI took place in November 2014 and the next one is due November 2016.

The total value of employer contributions to the fund was £34,045,904 and employee contributions were £7,019,383 making a total of £41,065,287, 99.86% of these were paid on or before the due date. The monitoring of the payment of contributions identified 5 external payments out of 216 (18 employers X 12 monthly payments) were late, by 4 employers. The value of the late contributions amounts to £58,206 which in percentage terms was 0.14% of the total fund contributions. Interest was not charged for the late payments as the cost of levying the charge outweighs the amount of interest that would have been due to the fund, which at 1% above base rate amounted to less than £25.

ADMINISTRATIVE MANAGEMENT PERFORMANCE

Pension Services Local Performance Indicators 2015/16

| INDICATOR | What is it an indicator of? | Actual 2015/16 | Target 2015/16 | Actual 2014/15 | Actual 2013/14 |
|--|--|-------------------|-------------------|-------------------|-------------------|
| 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 | 86.4% | 95% | 80.1% | 86.4% |
| The percentage of early retirement estimates processed within 10 working days | To produce estimates for early retirements i.e. ill health, 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 | 65.3% | 91% | 72.8% | 83.9% |
| 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. | 72.9% | 60% | 20.2% | 63.4% |
| The percentage of 'Transfers In' actuals processed within 15 working days. | The percentage of transfers in with the member's record updated with the transferred in information | 14.3% | 80% | 13.0% | 37.0% |
| The percentage of 'Transfers Out' actuals processed within 15 working days | The percentage of transfers out paid to the new pension provider | 24.1% | 80% | 54.8% | 83.9% |
| 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 | 83.9% | 95% | 57.3% | 67.7% |
| The percentage of joiners processed within 10 working days of information received | The percentage of joiners' records set up on the Pensions Administration System | 89.5% | 70% | 71.5% | 64.6% |

The Pension Service Local Performance Indicators represent the main core of the benefits team output but do not cover all the calculations and processes carried out by this team. The performance of the benefit team has been impacted by the resignation of a full time experienced pension officer in June 2015. The post remains vacant, but has been covered by temporary agency staff since 4 January 2016.

The indicators do not include a substantial amount of the work carried out by the record maintenance team who effectively manage the quality of the data held, which has a direct impact upon the triennial valuation.

Changes to legislation required Annual Benefit Statements to be sent to active scheme members by 31/08/2015. This was extremely challenging for the team as approved layouts and software to produce the

statements were not available until the last minute. Additionally, key data from the fund's largest employer was not available due to a change of payroll system. The record maintenance team successfully met the deadline for all active members where the data had been provided by the scheme employer. This equated to 96.2% of active members receiving their ABS by 31/08/2015 and a further 2.4% of active members being provided with an ABS on receipt of information from their employer by the Pension Regulator's extended deadline of 30/11/2015. Deferred benefit statements were also sent out to deferred scheme members.

Performance levels this year have been impacted by the loss of an experienced senior member of the team and have struggled to recruit to this role. The new scheme continues to impact on the targets due to increased protections afforded to members of the scheme along with government legislation changes, such as, decreased limits to annual and lifetime allowance requiring an increase in record monitoring.

When system upgrades for amendments to regulations are installed, this does not always address the initial requirements therefore manual calculations are still required for transfers, which is impacting targets. The percentage performance data does not give a true reflection of the overall performance of the team and there have been no IDRP or general customer complaints.

There have been adhoc issues with the availability of the Pension Software system and hosting issues during the year. However, due to constant changes to guidance and legislation of the 2014 CARE scheme the system is still unable to fully comply with the changes. Catch up releases and patch fixes have been rolled out to resolve system errors. Also due to hosting arrangements for Altair, via the internet, it is vital the Council's networks are stable, which over the past year they have experienced some issues.

Additional priorities which impacted on the workload and performance for the team during this year included:

- Developing and testing interfaces for the new One Oracle Council Enterprise Resource Planning (ERP) system
- Provision of first active benefit statement to incorporate CARE and Final Salary Benefits
- Robust testing of the Pension administration software, resulting in high volumes of manual calculations due to the implementation of the new CARE Scheme 2014.
- Employer and scheme member presentations to support the introduction for the new CARE Scheme
- Employer meetings and workshops on new data requirement and employer responsibilities
- Review of processes and all documentation to be compliant with the new scheme and overriding legislation
- Increase in Employers and the need to support them
- Increasing demands for specialist advice to support the ever changing way in which the authority delivers its key services for example partnership working and TUPE regulations
- The resignation of an experience Senior Transactional Agent during the year, therefore impacting the workload of the rest of the Benefits Team.

Over the past 5 years trends on the key activities within the administration team are detailed below. There was a peak in the volume of work in 2013/14 due to the introduction of Automatic Enrolment, which did not reduce dramatically for 2014/15 onwards.

| Service Item | 2011/12 Cases | 2012/13 Cases | 2013/14 Cases | 2014/15 Cases | 2015/16 Cases |
|--------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Retirements processed | 293 | 273 | 315 | 261 | 279 |
| Early retirement estimates processed | 635 | 660 | 657 | 725 | 827 |
| Notification of Deferred Benefits | 172 | 653 | 538 | 243 | 351 |
| Transfers In Actuals processed | 60 | 65 | 54 | 54 | 35 |
| Transfers Out Actuals processed | 42 | 32 | 31 | 31 | 29 |
| Death notification written out | 93 | 152 | 158 | 178 | 224 |

| Service Item (continued) | 2011/12 Cases | 2012/13 Cases | 2013/14 Cases | 2014/15 Cases | 2015/16 Cases |
|--|------------------|------------------|------------------|------------------|------------------|
| New LGPS joiners processed | 522 | 743 | 1,234 | 1,173 | 1,004 |
| Refunds | 48 | 15 | 29 | 99 | 148 |
| TV Out & Inter Fund Adjustment (IFA) Quote | 58 | 63 | 69 | 75 | 98 |
| TV In & IFA Quote | 86 | 80 | 70 | 108 | 254 |
| Total Cases per year | 2,009 | 2,736 | 3,155 | 2,947 | 3,249 |

Staff Resource

The Pensions Administration Team is part of oneSource Exchequer and Transactional Services and is split between two teams, the Benefits Team and the Member Record Maintenance Team. An experienced full time member of the benefits team left the authority in June 2015 and this has impacted the performance of the team.

The team currently consists of 9.11 FTE of which 8.45 FTE is resourced. The roles are as follows:

| Job Title | Number of FTE | Number of filled FTE |
|--|---------------|----------------------|
| Specialist Transactional Team Lead | 1 | 1 |
| Senior Specialist Transactional Agent | 3.67 | 3.67 (inc.1 agency) |
| Specialist Transactional Agent | 0.44 | 0 |
| Specialist Transactional Support Agent | 1 | 1 |
| Specialist Transactional Support Assistant | 3 | 2.78 (inc.1 agency) |

The Benefits team consists of 3 FTE Senior Transactional Agents, 0.44 FTE Specialist Transactional Agent (vacant post) and 0.5 FTE of the Specialist Transactional Support Agent.

The Member Record Maintenance Team consists of 0.67 FTE Senior Transactional Agent, 0.5 FTE Specialist Transactional Support Agent and 2.78 FTE Specialist Transactional Support Assistants (0.22 vacant posts). The Senior Transactional Agent has been supporting the development and testing of One Oracle interfaces.

These two teams are managed by the Specialist Transactional Team Lead. We also have a Pensions Project Manager who works outside of the administration team concentrating on specialist projects and is working in partnership with London Borough of Newham.

As there are two areas administering the scheme we do not monitor the average cases per member of staff or staff to fund member ratios.

Pensions Administration has not participated in the CIPFA Benchmarking Club this year.

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 on the Pension section in two ways:-

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

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

Academies and Outsourcing

The pace of conversion of schools to Academies slowed down during 2015/16 but is due to escalate as a result of the Government's announcement around its desire for all schools to become Academies. Academies need continual support and monitoring.

Outsourcing continues to add further demand on Pension Team resources and is an area not captured by performance indicators as it does not deliver a tangible, quantifiable benefit. The level of planned and actual outsourcing by Academies is still on-going and seems likely to continue to grow. This adds to the work of the Pension Team who provides the necessary data for the Actuaries to calculate Bonds and employers' rates. If the outsourced function is granted Admitted Body Status this drives further unplanned work to separate out the scheme employers and causes a further administrative burden as the number of scheme employers increases.

The growth in Scheduled and Admitted Body scheme employers also increases the support and communications requirements for the team. Introduction meetings are held with all new bodies to support their entry into the scheme with on-going meetings and support as and when required. The extension of scheme employers increases the workload for the production of annual benefit statements and the provision of information for the triennial and individual valuations. During 2015/16 there were 2 Academy conversions.

Should the increase in scheme employers continue to rise the staffing resources of the team will have to be reviewed.

With all the above pressures the Pension Team has been committed to providing a good quality pension service for stakeholders, in particular scheme members. Should the increase in scheme employers continue at the current pace the staffing resources of the team will have to be reviewed.

Fund Membership Data

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

| | As at 31 March 2016 | As at 31 March 2015 | As at 31 March 2014 | As at 31 March 2013 | As at 31 March 2012 |
|------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Contributors | 6,526 | 6,484 | 6,206 | 5,755 | 5,878 |
| Deferred pensioners | 5,709 | 5,224 | 4,874 | 4,702 | 4,405 |
| Pensioners and Dependants | 5,884 | 5,779 | 5,641 | 5,453 | 5,253 |
| | 18,119 | 17,487 | 16,721 | 15,910 | 15,536 |

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

| | As at 31 March 2016 | As at 31 March 2015 | As at 31 March 2014 | As at 31 March 2013 | As at 31 March 2012 |
|-------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Ill Health | 11 | 15 | 13 | 14 | 16 |
| Early Retirements | 0 | 0 | 0 | 0 | 0 |

The age profile of members within five year bandings for the year ended 31 March 2016 is as follows:

| AGE BANDS | ACTIVES | DEFERREDS | PENSIONERS (OWN RIGHT) | DEPENDANT PENSIONS | TOTAL BY AGE BAND |
|--------------|--------------|--------------|------------------------|--------------------|-------------------|
| 0-4 | 0 | 0 | 0 | 2 | 2 |
| 5-9 | 0 | 0 | 0 | 3 | 3 |
| 10-14 | 0 | 0 | 0 | 9 | 9 |
| 15-19 | 38 | 3 | 0 | 19 | 60 |
| 20-24 | 197 | 80 | 0 | 9 | 286 |
| 25-29 | 323 | 305 | 0 | 1 | 629 |
| 30-34 | 403 | 426 | 0 | 0 | 829 |
| 35-39 | 554 | 491 | 0 | 1 | 1,046 |
| 40-44 | 877 | 753 | 3 | 11 | 1,644 |
| 45-49 | 1,153 | 1,105 | 7 | 10 | 2,275 |
| 50-54 | 1,287 | 1,227 | 23 | 11 | 2,548 |
| 55-59 | 1,016 | 1,006 | 152 | 36 | 2,210 |
| 60-64 | 531 | 284 | 860 | 43 | 1,718 |
| 65-69 | 127 | 24 | 1,321 | 81 | 1,553 |
| 70-74 | 20 | 5 | 986 | 112 | 1,123 |
| 75-79 | 0 | 0 | 662 | 133 | 795 |
| 80-84 | 0 | 0 | 520 | 175 | 695 |
| 85-89 | 0 | 0 | 320 | 135 | 455 |
| 90-94 | 0 | 0 | 123 | 78 | 201 |
| 95-99 | 0 | 0 | 21 | 13 | 34 |
| 100-104 | 0 | 0 | 2 | 2 | 4 |
| TOTAL | 6,526 | 5,709 | 5,000 | 884 | 18,119 |

Contributions to the Fund

Employees who were eligible to be members of the Fund 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 were introduced. These new rates have been designed to give more equality between the cost and benefits of scheme membership and are dependent on which pay band the member falls into. The employee contribution rates for 2015/16 range from 5.5% to 12.5% of pensionable pay.

The London Borough of Havering as a scheme employer review LGPS bandings on an annual basis each April, therefore promotions and demotions do not affect contribution rates until the following year.

The Authority is required to make balancing contributions as determined by the Fund's actuary to maintain the solvency of the Fund. The employer's contribution for the London Borough of Havering employees was 22% of salary in 2015/16 (2014/15 22%). The Authority's annual contribution is reviewed every three years. The valuation based on data as at 31st March 2013 set employer contribution rates for 2014/15, 2015/16 and 2016/17.

In 2015/16 the contribution rates due from the other employers in the Havering Pension Fund range from 17.3% to 28.8%, including payments of past service contributions.

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

All new employers are given instruction and written guidance in the requirements of the Pension Administration team for making payments, timescales for payments and the reminder process in place. In advance of admittance to the scheme all new employers are informed of the employer contribution rates applicable and the required bond levels.

All admitted body employers are currently required to purchase a bond which protects the Fund against default payments.

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) | 4,845 | 5,478,813 | 28,123,754 |
| SCHEDULED BODY: | | | |
| Havering College of Further & Higher Education | 301 | 358,519 | 1,330,083 |
| Havering Sixth Form College | 99 | 117,568 | 353,673 |
| Drapers Academy | 45 | 54,252 | 178,733 |
| Abbs Cross Academy and Arts College | 49 | 50,019 | 196,039 |
| Coopers' Company & Coborn School | 50 | 66,076 | 280,025 |
| The Brittons Academy Trust | 85 | 72,925 | 311,713 |
| Sacred Heart of Mary Girls' School | 49 | 33,907 | 166,390 |
| The Champion School | 90 | 65,814 | 255,983 |
| Hall Mead School | 97 | 67,574 | 284,373 |
| St Edward's Church of England School & Sixth Form | 66 | 68,626 | 252,997 |
| Emerson Park Academy | 59 | 53,711 | 212,557 |
| Redden Court School | 62 | 54,502 | 223,190 |
| The Albany School | 53 | 45,252 | 188,500 |
| The Chafford School | 40 | 48,781 | 184,439 |
| The Frances Bardsley Academy for Girls | 65 | 56,918 | 221,642 |
| Upminster Infant School | 22 | 9,207 | 43,883 |
| Upminster Junior Academy | 28 | 16,266 | 67,674 |
| Bower Park Academy | 42 | 42,800 | 171,335 |
| Langtons Junior Academy | 25 | 10,994 | 50,139 |
| Oasis Academy Pinewood | 42 | 18,956 | 65,837 |
| Drapers Brookside Junior School | 24 | 13,652 | 62,420 |
| Rise Park Infant School | 30 | 12,655 | 58,709 |
| Rise Park Junior School | 26 | 14,583 | 52,547 |
| Prygo Priory Primary School | 62 | 30,607 | 123,941 |
| Elutec College of Design & Engineering | 18 | 8,325 | 28,622 |
| Dycorts | 37 | 18,174 | 68,897 |

| Contributing employers | Active Members | Contributions from Members £ | Contributions from Employers £ |
|--|-----------------------|---|---|
| Drapers Maylands | 4 | 1,986 | 7,005 |
| Scheduled Body Total | 1,570 | 1,412,649 | 5,441,346 |
| ADMITTED BODIES: | | | |
| Sports & Leisure Management – Charitable Trust | 50 | 55,471 | 147,832 |
| Sports & Leisure Management – Fitness and Health | 5 | 4,040 | 11,104 |
| Citizens Advice Bureau | ceased | 2,000 | 65,710 |
| KGB Cleaners | ceased | 146 | 588 |
| Family Mosaic | 41 | 36,175 | 150,652 |
| Breyer Group Voids | 2 | 6,078 | 18,674 |
| Breyer Group Repairs | 8 | 22,434 | 78,949 |
| Caterlink | 5 | 1,578 | 7,295 |
| Admitted Bodies Total | 111 | 127,922 | 480,804 |
| TOTAL | 6,526 | 7,019,384 | 34,045,904 |

Investment Policy and Performance Report

INVESTMENT POLICY

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

The Authority has in place an Investment Strategy, which consists of a document split into two sections – The Statement of Investment Principles and the Myners Compliance Statement.

Statement of Investment Principles - This Statement sets out the Authority's policy on a range of matters relating to investments, including the Fund's responsible investment policies and any environmental, social and governance issues and management of the Pension Fund. This is produced in conjunction with the Fund's investment advisors. The Fund does not place restrictions on any particular types of 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.

Myners - In line with regulations the Authority, as an Administration Authority, also publishes a statement which shows the extent to which it complies with guidance as issued by the Secretary of State. Where it does not comply, reasons for non-compliance must be disclosed. This is known as the Myners Principles and is published together with the SIP.

A copy of the SIP and compliance against the Myners Principles can be found in the appendices attached to this report.

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 movement in the asset allocations since the last annual report is shown in the table below.

| Asset Class | Target Allocation as per SIP Nov 2015 | Actual Asset Allocation March 2015 | Actual Asset Allocation March 2016 | Actual March 2016 Asset Allocation vs Target Allocation |
|--|---------------------------------------|------------------------------------|------------------------------------|---|
| | % | % | % | % |
| Equities | 25 | 27.4 | 27.2 | 2.2 |
| Investment Grade Bonds – Active | 17 | 20.9 | 21.3 | 4.3 |
| Property – Active | 5 | 4.6 | 5.9 | 0.9 |
| Absolute Return Multi Asset (All classes) – Active | 15 | 12.7 | 12.4 | -2.6 |
| Multi Asset Strategies | 35 | 31.1 | 30.0 | -5.0 |
| Infrastructure | 3 | 0.0 | 0.0 | -3.0 |
| Cash | 0 | 3.3 | 3.2 | 3.2 |
| Total | 100 | 100 | 100 | 0 |

In line with the Statement of Investment Principles, 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. Significant changes in the year were as follows:

- Additional contributions were made to the Fund in March 2014 which will fund a Local Infrastructure project once a scheme has been identified. A scheme has yet to be identified so the cash is still being invested in the State Street Liquidity fund.
- In June 2016 Members agreed to increase the holdings in passive equities by reducing the holdings in Multi Asset strategies. They also agreed to adopt the FTSE RAFI 3000 index for 50% of the passive equity allocation.
- The Havering Pension Fund joined the London Collective Investment Vehicle (LCIV) in September 2015. One of the Funds existing Multi Asset Strategy managers were appointed by the LCIV and in February 2016 the Havering Pension Fund transitioned its holding with this manager to the LCIV.

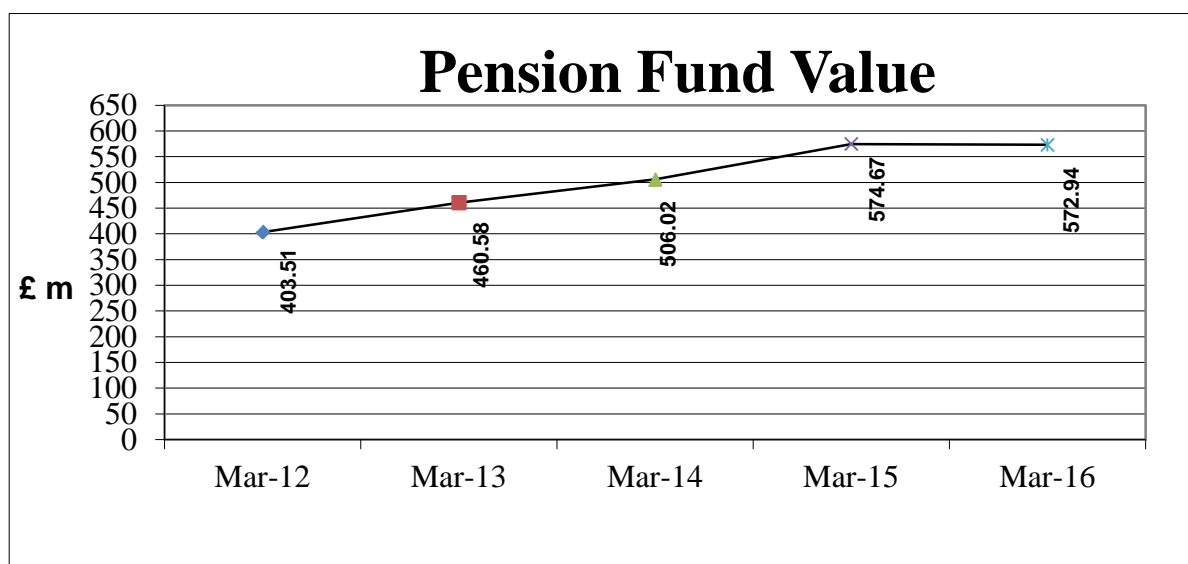
INVESTMENT PERFORMANCE

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

The Net Assets of the Fund has reduced to **£573m** for 2015/16 from £575m in 2014/15, a net decrease of **(£2m)**.

The net decrease of **(£2m)** is compiled of a change in the market value of assets of (£8m), investment income of £5m, net additions of cash of £5m and offset by management expenses of (£4m). Further details are included within the Fund Account and Net Asset Statement included in this report.

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



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 fund manager and is determined according to the type of investments being managed.

The strategic benchmark for the overall fund is a liability benchmark of FTSE A Gilts over 15 years plus 1.8% (net of fees) p.a. (This is the rate used in the valuation of the Fund's liabilities).

The main factor in meeting the strategic benchmark is market performance. The main factor in meeting the tactical benchmark is fund manager performance.

In 2015/16, the overall return on the Fund's investments was **-1.2%** (2014/15 13.2%). This represented an under performance of **-2.8%** against the tactical benchmark (2014/15 outperformance of 1.7%) and an under performance of **-7.7%** against the strategic benchmark (2014/15 under performance of -12.9%).

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

| | <u>1 year to</u> <u>31.03.15</u> % | <u>1 year to</u> <u>31.03.16</u> % | <u>3 Years to</u> <u>31.03.16</u> % | <u>5 years to</u> <u>31.03.16</u> % |
|----------------------------|--|--|---|---|
| Fund Return | 13.2 | -1.2 | 6.1 | 7.3 |
| Tactical Benchmark | 11.3 | 1.7 | 5.9 | 7.0 |
| Performance | 1.7 | -2.8 | 0.3 | 0.4 |
| Fund Return | 13.2 | -1.2 | 6.1 | 7.3 |
| Strategic Benchmark | 29.9 | 7.1 | 11.6 | 14.2 |
| Performance | -12.9 | -7.7 | -4.9 | -6.0 |

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

A **strategic benchmark** has been adopted for the overall Fund of Gilts + 1.8% (net of fees) per annum. This is the expected return in excess of the Fund's liabilities over the longer term. The strategic benchmark measures the extent to which the Fund is meeting its longer term objective of reducing the Fund's deficit. This current shortfall is driven by the historically low level of interest rates which drive up the value of Gilts (and consequently the level of the Fund liabilities). Whether interest rates will remain at those levels for the longer term and the implications for the Fund's Investment Strategy is a matter which will need to be considered at the time of the next actuarial review.

Our Investment Advisers have stated that there are things that could have been done to protect the Fund against falling interest rates (e.g. hedging) but they do not believe that this action would have been appropriate. The Fund is already partially protected through its investments with Royal London and given the long term nature of the Fund they believe that the Fund objective of pursuing a stable investment return remains appropriate. They also note that although the value placed on the liabilities has risen as a result of falling yields, inflation and expectations of future inflation have fallen meaning that the actual benefit cash flows expected to be paid from the Fund will be lower.

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

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

| Asset Class | Target allocation | Investment Manager/ product | Segregated/ pooled | Active/ Passive | Benchmark and Target |
|-----------------------|-------------------|---|--------------------|-----------------|---|
| UK/Global Equity | 12.5% | Baillie Gifford (Global Alpha Fund) | Pooled | Active | MSCI All Countries Index plus 2.5% |
| | 6.25% | State Street Global Asset | Pooled | Passive | FTSE All World Equity Index |
| | 6.25% | State Street Global Asset | Pooled | Passive | FTSE RAFI All World 3000 Index |
| Multi Asset Strategy | 15% | Baillie Gifford (Diversified Growth Fund) | Pooled | Active | UK Base Rate plus 3.5% |
| | 20% | GMO Global Real return (UCITS) | Pooled | Active | OECD CPI g7 plus 3 - 5% |
| Absolute Return | 15% | Ruffer | Segregated | Active | LIBOR+ |
| Property | 5% | UBS | Pooled | Active | IPD All balanced (property) Fund's median + |
| Gilt/Investment Bonds | 17% | Royal London | Segregated | Active | <ul style="list-style-type: none"> 50% iBoxx £ non- Gilt over 10 years 16.7% FTSE Actuaries UK gilt |

| Asset Class | Target allocation | Investment Manager/ product | Segregated/ pooled | Active/ Passive | Benchmark and Target |
|----------------|-------------------|--|--------------------|-----------------|---|
| | | | | | over 15 years • 33.3% FTSE Actuaries Index-linked over 5 years. Plus 1.25%* |
| Infrastructure | 3% | State Street Global Assets –Sterling liquidity Fund Cash is invested pending identification of a local infrastructure project. | | | |

*0.75% prior to 1 November 2015

The following table compares each Fund Manager performance against their benchmark and their performance target for the twelve months ending 31 March 2016:

| Fund Manager | Return (Performance) | Benchmark | Performance vs benchmark |
|-------------------------------------|----------------------|-----------|--------------------------|
| Royal London | 1.4 | 1.0 | 0.4 |
| UBS | 11.6 | 11.2 | 0.4 |
| Ruffer | -3.5 | 0.6 | -4.1 |
| SSgA Global Equity | -0.5 | -0.6 | 0.0 |
| SSgA Sterling Liquidity Fund | 0.5 | 0.4 | 0.1 |
| Baillie Gifford (Global Alpha Fund) | 0.1 | -0.6 | 0.70 |
| London CIV/ Baillie Gifford (DGF) | -1.4 | 4.0 | -5.2 |
| GMO (GRRUF) | -5.6 | 0.1 | -5.7 |

Source: WM Company, Fund Managers and Hymans

- SSGA performance is not shown as they were not invested for entire period.
- Totals may not sum due to geometric basis of calculation and rounding.

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

WM also produces performance summaries for the Local Authority Universe that comprises of 88 LGPS pension funds.

The average return (gross of fees) over the 12 months to 31 March 2016 for the WM Local Authority universe was 0.2% (2014/15 12.2%). The Havering Pension Fund was at the 75th percentile in 2015/16 (2014/15 46th).

| WM data | 2015/16 | 2014/15 | 2013/14 | 2012/13 | 3yrs % pa | 5yrs % pa | 10yrs % pa |
|--------------------------------|------------|-------------|------------|-------------|------------|------------|------------|
| Fund Return | -1.0 | 13.2 | 7.0 | 14.6 | 6.3 | 7.5 | 4.9 |
| Benchmark (WM Universe) | 0.2 | 12.9 | 6.4 | 13.8 | 6.4 | 7.1 | 5.6 |
| Relative Return | -1.2 | 0.3 | 0.6 | 0.7 | -0.1 | 0.4 | -0.7 |
| WM Ranking | 75 | 46 | 35 | 32 | 56 | 33 | 73 |

Asset Allocation

The Fund Managers and the market value of assets under their management at 31 March 2016 were as follows:

| Manager | Mandate | Value £000 | Proportion of Total Fund % |
|-----------------------------------|-------------------------------|----------------|----------------------------------|
| Royal London | Active Investment Grade Bonds | 121,510 | 21.7 |
| UBS | Active Property | 33,942 | 6.1 |
| Ruffer | Multi Asset Absolute Return | 71,006 | 12.7 |
| State Street Global Assets | Passive UK/Global Equities | 72,130 | 12.9 |
| State Street Global Assets | Sterling Liquidity Fund | 6,239 | 1.1 |
| Baillie Gifford | Pooled Global Equities | 83,794 | 14.9 |
| London/CIV Baillie Gifford DGF | Multi Asset | 75,874 | 13.5 |
| GMO | Multi Asset | 96,197 | 17.1 |
| | Other | 23 | 0.0 |
| Total Fund | | 560,715 | 100.0 |

Largest 10 Direct Asset Holdings of the Total Fund Value:

| <u>Holdings</u> | <u>Market Value at 31 March 2016</u> | <u>Proportion of the total investment of the fund</u> |
|---|--|---|
| | £m | % |
| Royal London Pooled Bonds | 9.28 | 1.66 |
| Cash – foreign currency | 6.29 | 1.12 |
| State Street Sterling Liquidity Cash Fund | 6.24 | 1.11 |
| UK Treasury Index Linked Bond 0.5% - matures 2050 | 5.55 | 0.99 |
| UK Treasury Index Linked Bond 0.625% - matures 2040 | 4.18 | 0.75 |
| UK Treasury 0.125% – matures 2024 | 3.97 | 0.71 |
| UK Treasury Index linked Bond 3.5% – matures 2068 | 3.89 | 0.69 |
| UK Treasury 0.25% - matures 2052 | 3.75 | 0.67 |
| Ruffer Illiquid Multi Strategies Fund | 3.71 | 0.66 |
| UK Treasury Index Linked Bond 0.125% - matures 2019 | 3.33 | 0.59 |
| Total | 50.19 | 8.95 |

In addition to the above holdings the Fund also invests in a number of pooled mandates, the largest as follows:

| <u>Holdings</u> | <u>Market Value at 31 March 2016</u> | <u>Proportion of the total investment of the fund</u> |
|---|--|---|
| | £m | % |
| GMO – Global Real Return (UCITS) Fund | 96.20 | 17.16 |
| Baillie Gifford Global Equities | 83.79 | 14.94 |
| Baillie Gifford Diversified Growth Fund | 75.72 | 13.50 |
| State Street Passive Equities | 72.13 | 12.86 |
| UBS Pooled Property | 33.45 | 5.97 |
| Total | 361.29 | 64.43 |

Funding Strategy Statement (FSS) - The Authority also has in place a Funding Strategy Statement (FSS) which was reviewed during 2013/14. The FSS is reviewed in detail at least every three years as part of the Fund's triennial valuation. This statement was reviewed during the revaluation process which commenced using data as at 31 March 2013 and the results published by no later than 31 March 2014.

The FSS was prepared by the Administration Authority in collaboration with the Fund's Actuary, Hymans Robertson and after consultation with the Fund's employers. The draft version of the Funding Strategy Statement was distributed to all participating employers and the consultation ended on 25 March 2014.

The FSS sets out the objectives of the London Borough of Havering Pension Fund's funding strategy and includes a summary of the Fund's approach to funding its liabilities and is effective from **1 April 2014**.

As part of the application of the FSS the Havering Pension Fund holds insurance bonds to guard against the possibility of admitted bodies not being unable to meet their pension obligations. These bonds total £4.2m and are drawn down in favour of the Pension Fund and payment will only be triggered in the event of employer default. Five admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.7m.

The Pensions Project Manager, in collaboration with the Fund's Actuary has produced a draft Admissions Policy. The Admissions Policy covers acceptance, on-going treatment and cessation of admitted bodies. This is to ensure that a considered and consistent approach to the admission of new employers to the Fund can be followed. This draft policy has been completed and is awaiting clearance from our Internal Legal Section. Following clearance it will be presented to the Pensions Committee for adoption.

Investment Administration and Custody

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 investment balances in the Fund's accounts.

Fund Manager Performance is reported to the Pensions Committee on a quarterly basis. Managers are invited to present at the Pensions Committee meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure are the pooled Managers (SSgA, UBS, Baillie Gifford and GMO) and Ruffer who attend two meetings per year, one with officers and one with the Pensions Committee. However if there are any specific matters of concern to the Committee relating to the Managers' performance, arrangements will be made for additional presentations.

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

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

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

Scheme Administration Report

OVERVIEW

As mentioned in the Financial Performance section, the Scheme is administered by the Administering Authority's Pension Administration Team (as part of oneSource Exchequer and Transactional Services) and Finance (as part of oneSource Finance). The associated costs are therefore reimbursed to the Administering Authority by the Havering Pension 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 data maintained and procedures are subject to internal and external annual audits and no material issues have been identified.

The Authority's Pension Administration section is responsible for all aspects of the Scheduled (including Academies) and Admitted Body scheme membership including payment of benefits, processing joiners and leavers, record amendments, scheme employers' returns, monitoring and administration of the Authority's Additional Voluntary Contributions (AVC) scheme. The Administration section is also responsible for ensuring the governance processes relating to pensions arising from scheme employer TUPE activities are in place, including reporting to Committee.

The key day to day functions of the Pensions Administration Team 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 AVCs or APCs (replaces added years and now provides added pension)
- Processing leavers with a refund of contributions or deferred benefits
- Updating the pensions computer system with changes to members' details
- Reviewing and monitoring third tier ill-health retirements
- Monitoring and recording Scheduled and Admitted Body contributions for bodies that do not utilise the Havering payroll
- Utilising information technology to improve service standards and efficiency
- Supporting outsourcing for both the Authority and other Scheduled Employers such as the Academies
- Contributing to national policy formulation on pensions to reflect the Authority's preferred approach
- Bi-annual National Fraud Initiative (NFI) compliance
- Ensuring continual data cleansing in preparation for the next scheme valuation
- Participation in the new scheme governance requirements of The Pension Regulations
- Continually reviewing all processes and procedures for smart working.
- Training and develop staff to meet service and Authority objectives

Key Uses of Technology

The Havering Pension Fund currently uses the ALTAIR hosted pension system. The team are supporting the continued expansion of scheme employers, the preparation for the Single Tier Pension and Guaranteed Minimum Pension review, implementing member self-service, and developing the workflow module, all of which significantly impacts upon team resources.

The aspiration of the pension administration team is to implement member self-service together with providing management tools for managing team workflow. The benefits of self service and workflow are that team members will be able to prioritise work to deliver added value and meet performance targets thus saving valuable time from data input.

The Havering Pension Fund has continued to have a joint pension website with the London Borough of Redbridge and London Borough of Newham.

This website holds information on the LGPS including previous newsletters, a scheme guide and various factsheets. A review of functionality of the website has led to website improvements, and work on incorporating member self-service access to members' own pension records will be developed at a later stage. Improvements during this year have included updating the website for the new CARE scheme including pension modellers and links to .GOV.UK regarding the changes to the new single tier state pension. Work continues to develop the website taking on board member's feedback.

Internal Dispute Resolution Procedure (IDRP)

Any internal disputes go firstly to the Authority's Actuaries and then to the Pensions Panel which comprises the Director of Human Resources/Organisational Development, Director of Legal and Governance and the Corporate Finance & Strategy Manager. The Team Leader for Pensions Administration sits on the panel in an advisory role.

There were no cases taken to IDRP in 2015/16.

Whistle Blowing

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

No breaches were reported during 2015/16.

Actuarial Report

London Borough of Havering Pension Fund ("the Fund") Actuarial Statement for 2015/16

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

Description of Funding Policy

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

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

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

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 60% chance that the Fund will return to full funding over 20 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 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £461 million, were sufficient to meet 61% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £292 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014.

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 2013 valuation were as follows:

| Financial assumptions | 31 March 2013 | |
|-----------------------------------|-------------------|----------------|
| | % p.a. Nominal | % p.a. Real |
| Discount rate | 4.80% | 2.30% |
| Pay increases | 3.30% | 0.80% |
| Price inflation/Pension increases | 2.50% | - |

The key demographic assumption was the allowance made for longevity. The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| | Males | Females |
|--------------------|------------|------------|
| Current Pensioners | 22.1 years | 24.1 years |
| Future Pensioners* | 24.2 years | 26.7 years |

*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Havering, the Administering Authority to the Fund.

Experience over the period since April 2013

Real bond yields have fallen placing a higher value on liabilities. The effect of this has been offset by the effect of strong asset returns and deficit contributions. Funding levels are therefore likely to have improved marginally and deficits fallen over the period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.



Steven Law FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
4 May 2016

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

The Fund's Actuary carried out a triennial valuation based on data as at 31 March 2013. The main purpose of the valuation is to set employer contribution rates for 2014 to 2017 and also to calculate the funding position within the Fund. The valuation prior to this date was undertaken at 31 March 2010.

Details about the financial assumptions used by the Actuary can be found within the Valuation Report 2013, which is available by selecting the link here, [Haverling Pension Fund](#).

In accordance with the Fund's Funding Strategy Statement the Actuary also carried out an inter-valuation update. This funding update is provided to illustrate the estimated development of the funding position from 31 March 2013 to 30 September 2014.

Summary

| Valuation date | 31 March 2010 | 31 March 2013 | Estimated Inter - valuation 30 Sept 2014 |
|------------------------|---------------|---------------|--|
| Total Liabilities | £589m | £752m | £792m |
| Market Value of Assets | £361m | £461m | £529m |
| Surplus/(deficit) | (£228m) | (£291m) | (£263m) |
| Funding Level | 61.3% | 61.2% | 66.8% |

The above table shows that whilst the 2013 funding level has not changed from 2010 the value of the deficit has increased. This is primarily driven by the change in the value of the liabilities which has been calculated on a set of assumptions used by the Fund's Actuary. The asset returns were higher than expected but not enough to offset the growth in liabilities.

As the table shows, as at 30 September 2014, the funding level has increased to 66.8%. This is largely as a result of higher than expected investment returns and an additional cash contribution paid into the Fund by the Authority in March 2014. The funding update does not allow for changes in individual members' data since the 2013 valuation, so the accuracy of this calculation is expected to decline over time as the period

since the last valuation increases. The next triennial valuation will be based on data as at 31 March 16 and published in the autumn of 2016.

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

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

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

Governance Compliance Statement

Governance Compliance Statement

Under Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 and Regulation 55 of the LGPS Regulations 2013, administering authorities are required to prepare, publish and maintain statements of compliance against a set of best practice principles on scheme governance and stewardship.

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

The Governance Compliance Statement, which was amended in November 2015 to reflect the establishment of a LPB, sets out the following:

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

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

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

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

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

Training and Development

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

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

A joint training strategy has been developed and was agreed by the Pensions Committee on the 24 November 2015 and presented to the Local Pension Board at its meeting on the 6 January 2016.

The Training Strategy formally sets out the arrangements the London Borough of Havering Pension Fund will take in order to comply with the principles of the CIPFA Code of Practice.

The Pension Committee of the London Borough of Havering Pension Fund fully supports the intentions behind CIPFA's Knowledge and Skills Code of Practice and has agreed to formally adopt its principles. CIPFA's Knowledge and Skills Framework covers six relevant areas of knowledge for members of decision making bodies, namely:

1. Pensions Legislative and Governance Context.
2. Pensions Accounting and Auditing Standards.
3. Financial Services Procurement and Relationship Management.
4. Investment Performance and Risk Management.
5. Financial Markets and Products Knowledge.
6. Actuarial Methods, Standards and Practices.

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

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

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

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

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

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

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

Associated training and development will be given when required which will be linked to the Pension Fund meeting cyclical coverage for 2016/17.

Training and development took place during 2015/16 to ensure that Members of the Committee were fully briefed in the decisions they were taking at the time and a log of training and development is maintained and follows this statement.

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

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

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

The Pension Fund Accountant also attends quarterly forum meetings with peers from other London Boroughs; this gives access to extensive opportunities of knowledge sharing and benchmarking data.

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

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

PENSIONS COMMITTEE MEMBER TRAINING 2015/16

| DATE | TOPIC COVERED | LOCATION | KSF | COST | ATTENDED BY |
|----------------------|--|---|------------|-------------------------------------|---|
| 15 April 2015 | DG publishing – “Question Time”: The future of Local authority Pension Funds | London | KSF 1 | Free | Cllr Stephanie Nunn |
| 21 April 2015 | GMO Investor Conference | Hilton London Tower Bridge, 5 more London Place | KSF 5 | Free | Cllr John Crowder (Chair) Cllr Stephanie Nunn |
| 24 April 2015 | Local Government Association – Shadow Scheme Advisory Board event – Update on what the SSAB has been doing since Summer 2013 and priorities for the future | Local Government House, Smith Square, London | KSF 1 | Free | Cllr Stephanie Nunn |
| 23 June 2015 | Hymans - Investment Strategy Principles and Fundamental Indexation vs. Market Cap | Town Hall - prior to Pensions Committee meeting | KSF 5 | Included in investment adviser fees | Cllr John Crowder (Chair) Cllr David Johnson (vice chair) Cllr Melvin Wallace Cllr Roger Westwood Cllr Ray Morgon Cllr Clarence Barrett Cllr Philip Hyde (Observer) |

| DATE | TOPIC COVERED | LOCATION | KSF | COST | ATTENDED BY |
|-------------------|--|--|-----------------|---------------------------------------|---|
| 12 Aug 2015 | Officers - Local Pension Board Induction covered: <ul style="list-style-type: none"> ○ Brief overview of the hivering Pension fund ○ How the scheme is funded ○ Governance Structure ○ Key parties in the Fund ○ Investment Monitoring ○ Strategy documents ○ Valuation ○ LPB reporting requirements | Town Hall – Prior to Local Pension Board meeting | KSF 1,2,4,5 & 6 | Officer Time | Cllr David Johnson (vice chair) Cllr Stephanie Nunn |
| 22 September 2015 | Officers - Pension Fund Accounts Briefing covered: - overview of the Pension Fund Accounts | Town Hall – prior to Pensions Committee meeting | KSF 2 | Officer Time | Cllr John Crowder (Chair) Cllr Ray Morgon Cllr Clarence Barrett John Giles |
| 13 October 2015 | CIPFA Pensions Network Autumn workshop, covered: <ul style="list-style-type: none"> ○ National Framework Update ○ Pension fund KPI's ○ Funding the cost of LGPS Administration costs ○ Local Pension Boards – story so far ○ Local Pension Board Regulator update | London -Sponsored by Amundi | KSF 1 | Pre-paid space (part of subscription) | Cllr John Crowder (Chair) (limited pre-paid places – offered to chair only) |

| DATE | TOPIC COVERED | LOCATION | KSF | COST | ATTENDED BY |
|-------------------------|---|--|-------------|-------------|--|
| 16 October 2015 | Local Government Association – Pooled investments | Local Government House, Smith Square, London | KSF 1 | Free | Cllr John Crowder (Chair) – chair only invited |
| 19 November 2015 | SPS Conferences - Local Authority Pension Fund Investment Strategies covering: <ul style="list-style-type: none"> ○ Pooling (GMO) ○ Investment collaboration ○ Performance measurement within LGPS (WM) ○ Looking ahead to 2016 actuarial valuation | Le Meridian, London | KSF 4,5 & 6 | Free | Cllr Stephanie Nunn |
| 26 November 2015 | DG publishing – “Question Time”: Collaboration & the London CIV | London | KSF 1 | Free | Cllr Stephanie Nunn |
| 6 January 2016 | Hymans- Fund’s Actuary delivered - TUPE Transfer Training, covered: <ul style="list-style-type: none"> • What is TUPE • Pension Protection & Regulations • Admission bodies documents & securities • Cessations | Town Hall – prior to Local Pension Board meeting | KSF 6 | £3,500 | Cllr John Crowder (chair) Cllr Ray Morgon Cllr Stephanie Nunn Cllr Melvin Wallace |

| DATE | TOPIC COVERED | LOCATION | KSF | COST | ATTENDED BY |
|---------------|---|---------------------|-------------|------|---|
| 17 March 2016 | SPS Conferences - Local Authority Pension Fund Investment Strategies covering: <ul style="list-style-type: none"> ○ LGPS Pooling update ○ Topical Investment Themes ○ LGPS Funding ○ LGPS Panel Session – Other pension fund priorities | Le Meridian, London | KSF 4,5 & 6 | Free | Cllr Stephanie Nunn Cllr David Johnson |

Attendance at Pensions Committee meetings:

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

The Committee met a number of times during 2015/16 and the coverage and attendance at those meetings are shown in the following table:

| DATE | TOPIC | ATTENDED BY |
|-------------------|---|---|
| 23 June 2015 | <ul style="list-style-type: none">Pension Fund Performance Monitoring for the quarter ending 31 March 2015, received presentations from Multi Asset managers GMO (Global Real Return) and Baillie Gifford (Diversified Growth Fund) and from Baillie Gifford (Global Equity).Noted the introduction of a Pension fund Risk Register.Noted the Business Plan/Annual report on the work of the Pensions Committee during 2014/15.Agreed to the admittance of Caterlink Ltd to the Havering Pension Fund.Considered changes to the investment strategy - agreed to reduce holdings with the Global Alpha fund to increase holdings in passive equities and the adoption of a fundamental tracking index and agreed to change the outperformance target for the bond mandate. . | Cllr John Crowder (chair) Cllr David Johnson(vice chair) Cllr Roger Westwood Cllr Melvin Wallace Cllr Clarence Barrett Cllr Ray Morgon |
| 22 September 2015 | <ul style="list-style-type: none">Pension Fund Performance Monitoring for the quarter ending 30 June 2015, received presentations from Royal London (Bonds Manager) and Ruffer (Multi Asset Manager).Noted Pension Fund Accounts for the year ending 31 March 2015.Agreed the Pension Fund Annual Report for the year ending 31 March 2015.Agreed to adopt the changes made to the Bond Manager Investment Guidelines in light of their previous decision to change the target. | Cllr John Crowder (chair) Cllr David Johnson(vice chair) Cllr Melvin Wallace Cllr Roger Westwood Cllr Clarence Barrett Cllr Ray Morgon Cllr Stephanie Nunn John Giles (UNISON) Heather Foster-Byron (employer representative) |
| 24 November 2015 | <ul style="list-style-type: none">Agreed the Communications Strategy for the three year period 2016 to September 2018.Noted the views of officers on the performance of the Fund's Actuary for the period April 2014 to September 2015.Noted the views of officers on the performance of the Fund's Custodian for the period October 2014 to September 2015.Noted the views of officers on the performance of the Fund's Investment Advisor for the period October 2014 to September 2015.Considered and agreed the changes to the Statement of Investment PrinciplesNoted the results of the Whistle Blowing Annual review and that no breaches had been reportedConsidered and agreed changes as necessary to the Governance Compliance Statement.Considered and agreed the Havering Pension Fund Training StrategyVerbal update on DCLG Asset pooling. | Cllr John Crowder (chair) Cllr David Johnson(vice chair) Cllr Melvin Wallace Cllr Roger Westwood Cllr Clarence Barrett Cllr Ray Morgon Cllr Stephanie Nunn John Giles (UNISON) Heather Foster-Byron (employer representative) |
| 15 December 2015 | <ul style="list-style-type: none">Pension Fund Performance Monitoring for the quarter ending 30 September 2015, received | Cllr John Crowder (chair) Cllr David Johnson(vice chair) |

| DATE | TOPIC | ATTENDED BY |
|---------------|---|--|
| | <p>presentations from Baillie Gifford (Global Alpha Fund), (Diversified Growth Fund) and State street Global Assets (UK/Global Passive Manager).</p> <ul style="list-style-type: none"> • Considered and agreed the revisions to Pension Fund Cash Management Policy • Considered a verbal request from officers regarding a request from UBS (Property manager) to purchase additional units. Hymans was asked to produce a briefing note and circulate to members before approval was given for the further investment to proceed. • Verbal update on DCLG asset pooling Pension Fund Performance Monitoring for the quarter ending 30 September 2014, received presentations from Baillie Gifford (Global Equity Manager) and (Diversified Growth Fund Manager). • Noted the Havering Pension Fund funding update as at 30 September 2014. | <p>Cllr Melvin Wallace Cllr Roger Westwood Cllr Clarence Barrett Cllr Ray Morgon Cllr Stephanie Nunn</p> |
| 15 March 2016 | <ul style="list-style-type: none"> • Pension Fund Performance Monitoring for the quarter ending 31 December 2015, received presentation from Royal London (Bonds Manager), UBS (Property Manager). • Agreed to the admittance of Accent Catering to the Havering Pension Fund | <p>Cllr David Johnson (chair) Cllr Wendy Brice- Thompson (sub for Cllr Crowder) Cllr Melvin Wallace Cllr Roger Westwood Cllr John Mylod (sub for Cllr Nunn) Cllr Ray Morgon Cllr Clarence Barrett John Giles (UNISON) Andy Hampshire (GMB)</p> |

The Havering Pension Fund adopts a Business Plan/Report on the work of the Pensions Committee which sets out the work undertaken by the Committee during 2015/16 and the plan of work for the following year (2016/17). This also includes a Training and Development Plan which is linked to the Pension Fund coverage of meetings.

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

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 2014/15 there were no conflicts of interests declared.

Fund Account, Net Asset Statement

Pension Fund Account for the year ended 31 March 2016

| 2014/15 £000 | | Notes | 2015/16 £000 |
|-----------------|---|-------|-----------------|
| | Dealing with members, employers and others directly involved in the fund | | |
| 35,704 | Contributions | 7 | 41,065 |
| 1,573 | Transfers in from other pension funds | 8 | 1,390 |
| 37,277 | | | 42,455 |
| (33,499) | Benefits | 9 | (34,973) |
| (1,506) | Payments to and on account of leavers | 10 | (1,982) |
| (35,005) | | | (36,955) |
| 2,272 | | | 5,500 |
| (3,334) | Management expenses | 11 | (3,663) |
| | Returns on investments | | |
| 6,651 | Investment income | 12 | 4,796 |
| - | Taxes on Income | 13 | (25) |
| 63,061 | Profit and losses on disposal of investments and changes in the market value of investments | 14a | (8,336) |
| 69,712 | Net returns on investments | | (3,565) |
| 68,650 | Net increase in the net assets available for benefits during the year | | (1,728) |
| 506,019 | Opening net assets of the Fund at start of year | | 574,669 |
| 574,669 | Closing net assets of the Fund at end of year | | 572,941 |

Net Asset Statement as at 31 March

| 2014/15 £000 | | Notes | 2015/16 £000 |
|-----------------|---|-------|-----------------|
| 567,999 | Investment Assets | 14 | 562,102 |
| (910) | Investment Liabilities | 14 | (1,387) |
| 8,339 | Current Assets | 20 | 13,707 |
| (759) | Current Liabilities | 21 | (1,481) |
| 574,669 | Net assets of the Fund available to fund benefits at end of the year | | 572,941 |

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

Notes to the Pension Fund

1 Description of the Fund

The Havering Pension Fund is part of the Local Government Pension Scheme and is administered by the London Borough of Havering. Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Deputy Chief Executive Communities and Resources.

The following description of the scheme is a summary only. For more details on the operation of the Pension Fund, reference should be made to the Havering Pension Fund Annual Report 2015/16 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

- The Local government Pension Scheme Regulations 2013 (as amended),
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

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

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

b) Membership

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

Organisations participating in the Fund include:

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

During 2015/16 three new employers joined the fund, two ceased and one employer transferred out.

There are 35 employer organisations with active members within the Havering Pension Fund including the Authority. The membership profile is detailed below.

| 31 March 2015 | | 31 March 2016 |
|---------------|--|---------------|
| 35 | Number of employers with active members | 35 |
| | Number of employees in scheme | |
| 4,897 | Haverling | 4,845 |
| 1,468 | Scheduled bodies | 1,570 |
| 119 | Admitted bodies | 111 |
| 6,484 | Total | 6,526 |
| | Number of pensioners and dependants | |
| 5,432 | Haverling | 5,486 |
| 280 | Scheduled bodies | 320 |
| 67 | Admitted bodies | 78 |
| 5,779 | Total | 5,884 |
| | Deferred pensioners | |
| 4,465 | Haverling | 4,796 |
| 700 | Scheduled bodies | 846 |
| 59 | Admitted bodies | 67 |
| 5,224 | Total | 5,709 |
| 17,487 | | 18,119 |

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the year ended 31 March 2016. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2013. Current employer contribution rates range from 17.3% to 28.7% of pensionable pay.

d) Benefits

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

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

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

There are a range of other benefits provided under the scheme including early retirements, disability pensions and death benefits. For more details please refer to the pension website www.yourpension.org.uk.

2 Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2015/16 financial year and its position at year end as at 31 March 2016. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

3 Summary of Significant Accounting Policies

Fund Account – revenue recognition

(a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

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

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises.

(b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10)

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

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

(c) Investment Income

i) Interest Income

Interest income is recognised in the Fund as it accrues.

ii) Dividend Income

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

iii) Distribution from Pooled Funds

Distributions from pooled funds are recognised at the date of issue.

iv) Property- Related Income

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

v) Movement in the Net Market Value of Investments

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

Fund Account – Expense Items

(d) Benefits payable

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

(e) Taxation

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

(f) Management Expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Authority discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

Administrative Expenses

All administrative expenses are accounted for on an accruals basis. The majority of staff costs of the Pensions Administration team have been charged to the scheme. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight is charged to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

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

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

For officers' time spent on investment management functions a proportion of the relevant officers' salary costs have also been charged to the Fund.

Net Assets Statement

(g) Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the

contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined as follows:

(i) Market-Quoted Investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

(ii) Fixed Interest Securities

Fixed interest securities are recorded at net market value based on their current yields.

(iii) Unquoted Investments

The fair value of investments for which market quotations are not readily available is determined as follows:

Investments in private equity funds are valued on the Fund's share of the net assets in the private equity fund.

Investments in pooled property are valued at the net asset value or a single price advised by the manager.

(iv) Pooled Investment Vehicles

Pooled investment vehicles are valued at the closing bid price if both the bid and offer prices are published; or if single priced, at the closing single price.

(h) Foreign Currency Transactions

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

(i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities.

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

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

(j) Cash and Cash Equivalents

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

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

(k) Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

(l) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (note 19)

(m) Additional Voluntary Contributions

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

AVC's are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

4. Critical Judgements in Applying Accounting Policies

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates provided to the admitted and scheduled bodies in the Fund, as requested, in the intervening years. The methodology used in the annual updates is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net asset statement at 31 March 2016 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if Actual Results differ from Assumptions | Approximate % Increase to liabilities | Approximate monetary amount (£m) |
|---|---|---|--|---|
| Actuarial present value of promised retirement benefits | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied | <p>The effects on the present value of promised retirement benefits of changes in actuarial assumptions can be significant. Changes in assumptions could have the approximate following impacts on the Fund's employer liability as follows:</p> <ul style="list-style-type: none"> • 0.5% decrease in the real discount rate could result in an increase of 10% • 1 year increase in member life expectancy could result in an increase of 3% • 0.5% increase in salary increase rate could result in an increase of 3% • 0.5% increase in the pension increase rate could result in an increase of 7% | <p>10%</p> <p>3%</p> <p>3%</p> <p>7%</p> | <p>97</p> <p>30</p> <p>30</p> <p>66</p> |

6. Events after the Reporting Date

Ending of the UK's Membership of the European Union

Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016, there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. It is too early to estimate the quantum of any impact on the financial statements, and there is likely to be significant on-going uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations. For the purposes of these financial statements, the Referendum is considered a non-adjusting event.

7. Contributions Receivable

By category

| 2014/15 £000 | | 2015/16 £000 |
|-----------------|---------------------------------------|-----------------|
| | Employees contributions | |
| | Normal: | |
| 5,401 | Havering | 5,450 |
| 1,323 | Scheduled Bodies | 1,388 |
| 152 | Admitted Bodies | 127 |
| | Additional contributions: | |
| 53 | Havering | 28 |
| 9 | Scheduled bodies | 25 |
| 1 | Admitted bodies | 1 |
| 6,939 | Total Employees' Contribution | 7,019 |
| | Employers contributions | |
| | Normal: | |
| 12,470 | Havering | 12,681 |
| 5,127 | Scheduled bodies | 5,412 |
| 576 | Admitted bodies | 440 |
| | Deficit funding: | |
| 10,056 | Havering | *15,117 |
| | Augmentation | |
| 288 | Havering | 326 |
| 248 | Scheduled bodies | 29 |
| - | Admitted bodies | 41 |
| 28,765 | Total Employers Contributions | 34,046 |
| 35,704 | Total Contributions Receivable | 41,065 |

*The £15.11m deficit funding reflects additional contributions made by the Authority to the Pension Fund. It consists of £6.3m past service contribution and £8.8 in voluntary planned contributions.

By authority

| 2014/15 £000 | | 2015/16 £000 |
|-----------------|---------------------------------------|-----------------|
| 28,268 | Havering | 33,602 |
| 6,707 | Scheduled bodies | 6,854 |
| 729 | Admitted Bodies | 609 |
| 35,704 | Total Contributions Receivable | 41,065 |

8. Transfers in from Other Pension Funds

| 2014/15 £000 | | 2015/16 £000 |
|-----------------|---|-----------------|
| 1,573 | Individual transfers in from other schemes | 1,390 |

9. Benefits Payable

By category

| 2014/15 £000 | | 2015/16 £000 |
|-----------------|---|-----------------|
| | Pensions | |
| 26,137 | Haverling | 26,757 |
| 782 | Scheduled Bodies | 887 |
| 482 | Admitted Bodies | 546 |
| 27,401 | Pension Total | 28,190 |
| | Commutation and Lump Sum Retirements | |
| 4,997 | Haverling | 5,151 |
| 471 | Scheduled Bodies | 645 |
| 208 | Admitted Bodies | 375 |
| 5,676 | Commutation and Lump Sum Retirements Total | 6,171 |
| | Lump Sum Death Benefits | |
| 410 | Haverling | 506 |
| 85 | Scheduled Bodies | 106 |
| (73) | Admitted Bodies | - |
| 422 | Lump Sum Death Benefits Total | 612 |
| 33,499 | Total Benefits Payable | 34,973 |

By authority

| 2014/15 £000 | | 2015/16 £000 |
|-----------------|-------------------------------|-----------------|
| 31,544 | Haverling | 32,414 |
| 1,338 | Scheduled bodies | 1,638 |
| 617 | Admitted Bodies | 921 |
| 33,499 | Total Benefits Payable | 34,973 |

10. Payments To and On Account of Leavers

| 2014/15 £000 | | 2015/16 £000 |
|-----------------|---------------------------------------|-----------------|
| 68 | Refunds to members leaving service | 76 |
| 1,438 | Individual transfers to other schemes | 1,673 |
| 0 | Group Transfers (Elutec) | 233 |
| 1,506 | | 1,982 |

At the year end there are potential liabilities of a further £0.8m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions (*See Note 25).

11. Management Expenses

| 2014/15 £000 | | 2015/16 £000 |
|-----------------|--------------------------------|-----------------|
| 450 | Administrative Costs | 512 |
| 2,618 | Investment Management Expenses | 2,796 |
| 253 | Oversight and Governance Costs | 344 |
| 13 | Local Pension Board | 11 |
| 3,334 | | 3,663 |

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

The Investment Management Expenses above includes £289k in respect of transaction costs (2014/15 £797k and restated £567k)

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

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

12. Investment Income

| 2014/15 £000 | | 2015/16 £000 |
|-----------------|---------------------------------|-----------------|
| 754 | Equity Dividend | 642 |
| *3,918 | Fixed Interest Securities | *3,960 |
| 1,196 | Pooled Property Income | 1,145 |
| 404 | Foreign Exchange Gains/(losses) | (1,398) |
| 47 | Interest on Cash Deposits | 67 |
| 332 | Other Income | 380 |
| 6,651 | | 4,796 |

* Income includes Index linked Interest of £199k (2014/15 £432k)

13. Taxes on Income

| 2014/15 £000 | | 2015/16 £000 |
|-----------------|-----------------|-----------------|
| - | Withholding Tax | (25) |
| - | | (25) |

14. Analysis of Investments

| 2014/15 £000 | | 2015/16 £000 |
|-----------------|--|-----------------|
| | Investment Assets | |
| | Equities | |
| 3,906 | UK Quoted | 1,273 |
| 20,485 | Overseas Quoted | 19,114 |
| 24,391 | | 20,387 |
| | Fixed Interest Securities | |
| 13,913 | UK Public Sector | 11,827 |
| 68,003 | UK Private (Corporate) | 62,191 |
| - | Overseas Public Sector | - |
| 81,916 | | 74,018 |
| | Index-Linked Securities | |
| 49,766 | UK Public Sector | 52,374 |
| 731 | UK Private (Corporate) | 722 |
| 13,094 | Overseas Public Sector | 13,094 |
| 63,591 | | 66,190 |
| | Derivative Contracts | |
| 21 | Forward Currency Contracts | 65 |
| 21 | | 65 |
| | Pooled Investment Vehicles | |
| | UK Managed Funds | |
| 360,314 | UK Quoted | 357,428 |
| 19 | UK Unquoted | 169 |
| 318 | Overseas | 273 |
| 550 | Property | - |
| | UK Unit Trust | |
| 26,341 | UK Property | 33,449 |
| 387,542 | | 391,319 |
| | Cash Deposits | |
| 9,044 | Managers | 7,188 |
| 9,044 | | 7,188 |
| - | Amounts receivable for sales | 1,616 |
| 1,236 | Investment income due | 1,155 |
| 258 | Outstanding Dividend and Recoverable Withholding Tax | 164 |
| 1,494 | | 2,935 |
| 567,999 | Total Investment Assets | 562,102 |

Note 14(Cont'd)

| 2014/15 £000 | | 2015/16 £000 |
|-------------------------|-------------------------------------|-------------------------|
| | Investment Liabilities | |
| | Derivative Contracts | |
| (550) | Forward FX Contracts | (295) |
| (355) | Amount payable for purchases | (1,092) |
| (5) | Investment Income Due | - |
| (910) | Total Investment Liabilities | (1,387) |
| 567,089 | Total Net Investments | 560,715 |

14a. Reconciliation of movements in investments and derivatives

| | Market Value at 31 March 2015 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in Market Value during the year | Cash & Other Movements | Market Value at 31 March 2016 |
|--|--|--|--|---|---|--|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Equities | 24,391 | 11,210 | (13,925) | (1,289) | | 20,387 |
| Fixed Interest Securities | 81,916 | 48,854 | (53,785) | (2,967) | | 74,018 |
| Index-linked Securities | 63,591 | 127,502 | (126,772) | 1,869 | | 66,190 |
| Pooled Investment Vehicles | 387,542 | 128,240 | (118,209) | (6,254) | | 391,319 |
| Derivatives – forward currency contracts | (529) | 244,977 | (244,977) | 299 | | (230) |
| Cash Deposits (fund managers) | 9,044 | | | 1 | (1,857) | 7,188 |
| | 565,955 | 560,783 | (557,668) | (8,341) | (1,857) | 558,872 |
| Other Investment Balances | 1,134 | | | 5 | 704 | 1,843 |
| | 567,089 | 560,783 | (557,668) | (8,336) | (1,153) | 560,715 |

| | Market Value at 31 March 2014 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in Market Value during the year | Cash & Other Movements | Market Value at 31 March 2015 |
|--|--|--|--|---|---|--|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Equities | 24,720 | 8,136 | (11,533) | 3,068 | - | 24,391 |
| Fixed Interest Securities | 68,082 | 30,756 | (26,439) | 9,517 | - | 81,916 |
| Index-linked Securities | 53,644 | 185,632 | (186,914) | 11,229 | - | 63,591 |
| Pooled Investment Vehicles | 347,520 | 204,674 | (204,540) | 39,888 | - | 387,542 |
| Derivatives – forward currency contracts | 109 | 260,038 | (260,038) | (638) | - | (529) |
| Cash Deposits (fund managers) | 5,951 | - | - | (1) | 3,094 | 9,044 |
| | 500,026 | 689,236 | (689,464) | 63,063 | 3,094 | 565,955 |
| Other Investment Balances | 750 | - | - | (2) | 386 | 1,134 |
| | 500,776 | 689,236 | (689,464) | 63,061 | 3,480 | 567,089 |

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.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £289k, including transition costs (2014/15 £797k and £567k restated). 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.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2016 were as follows:

14b. Investments analysed by Fund Manager

| Value 31 March 2015 | | Manager | Mandate | Value 31 March 2016 | |
|---------------------|---------------|----------------------------|----------------------------|---------------------|---------------|
| £000 | % | | | £000 | % |
| 119,855 | 21.13 | Royal London | Investment Grade Bonds | 121,510 | 21.67 |
| 26,671 | 4.70 | UBS | Property | 33,942 | 6.05 |
| 72,851 | 12.85 | Ruffer | Absolute Return | 71,006 | 12.66 |
| 55,502 | 9.79 | State Street Global Assets | Passive UK/Global Equities | 72,130 | 12.87 |
| 11,682 | 2.06 | State Street Global Assets | Sterling Liquidity Fund | 6,239 | 1.11 |
| 101,846 | 17.96 | Baillie Gifford | Pooled Global Equities | 83,794 | 14.94 |
| 17 | - | Barings DAAF | Multi Asset | - | - |
| 76,732 | 13.53 | Baillie Gifford DGF | Multi Asset | - | - |
| 101,882 | 17.97 | GMO | Multi Asset | 96,197 | 17.16 |
| | | London CIV | Pooled Global Equities | 75,874 | 13.53 |
| 51 | 0.01 | Other | | 23 | 0.01 |
| 567,089 | 100.00 | Total Fund | | 560,715 | 100.00 |

All of the above companies are registered in the United Kingdom

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

| Market Value 31 March 2015 | % of total fund | Security | Market Value 31 March 2016 | % of total fund |
|-------------------------------|-----------------|---|-------------------------------|-----------------|
| £000 | | | £000 | |
| 101,882 | 17.73 | GMO Global Real Return (UCITS) Fund | 96,197 | 17 |
| 101,846 | 17.72 | Baillie Gifford Global Alpha Pension Fund | 83,794 | 15 |
| - | - | London CIV Diversified Growth Fund | 75,724 | 14 |
| 55,502 | 9.66 | SSGA MPF All World Equity Index | 72,130 | 13 |
| - | - | UBS Property | 33,449 | 6 |
| 76,732 | 13.35 | Baillie Gifford Diversified Growth Fund | - | - |

14c. Stock Lending

We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager, State Street Global Assets, who carry out stock lending as part of the Fund's activities. It is not possible to allocate a share of the stock lending activity to individual fund members. The lending programme is managed by State Street Securities Finance (SSSF), a division of State Street's Global Markets area. At present, lending is collateralised by non-cash collateral and marked to market on a daily basis. Revenue generated from securities is allocated 60% to the pooled fund in respect of investors and 40% to State Street, which pays all costs associated with the lending programme.

15. Analysis of derivatives

Objectives and policies for holding derivatives

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

Forward foreign currency

The Fund currently has exposure to forward currency contracts and the purpose of this is to reduce the Fund's exposure to fluctuations in exchange rates. The Fund managers who use forward currency contracts are Royal London and Ruffer. A breakdown of forward contracts held by the Fund as at 31 March 2016 is given below:

Open forward currency contracts

| Settlement | Currency Bought | Local Value | Currency Sold | Local Value | Asset Value (Unrealised Gain) | Liability Value (Unrealised Loss) |
|---|-----------------|-------------|---------------|-------------|-------------------------------|-----------------------------------|
| | | 000 | | 000 | £000 | £000 |
| Up to one month | GBP | 5,838 | JPY | 987,454 | - | (277) |
| Up to two months | GBP | 17,500 | USD | 25,062 | 65 | - |
| Up to three months | GBP | 818 | EUR | 1,053 | - | (18) |
| Gross open forward currency contracts at 31 March 2016 | | | | | 65 | (295) |
| Net forward currency contracts at 31 March 2016 | | | | | - | (230) |
| Prior year comparative | | | | | | |
| Gross open forward currency contracts at 31 March 2015 | | | | | 21 | (550) |
| Net forward currency contracts at 31 March 2015 | | | | | - | (529) |

16. Financial Instruments

(a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading. No financial assets were reclassified during the accounting period.

| 31 March 2015 | | | | 31 March 2016 | | |
|---------------------------------|-----------------------|---|------------------------------------|---------------------------------|-----------------------|---|
| Fair value through fund account | Loans and receivables | Financial liabilities at amortised cost | | Fair value through fund account | Loans and receivables | Financial liabilities at amortised cost |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| | | | Financial Assets | | | |
| 24,391 | - | - | Equities | 20,387 | - | - |
| 81,916 | - | - | Fixed Interest Securities | 74,018 | - | - |
| 63,591 | - | - | Index linked securities | 66,190 | - | - |
| 14 | - | - | Derivative contracts | 65 | - | - |
| 361,201 | - | - | Pooled investment Vehicles | 357,870 | - | - |
| 26,341 | - | - | Property | 33,449 | - | - |
| - | 9,044 | - | Cash | - | 7,187 | - |
| - | - | - | Other Investment Balances | - | 2,935 | - |
| - | 9,525 | - | Debtors | - | 13,708 | - |
| 557,454 | 18,569 | - | Financial Assets Total | 551,979 | 23,830 | - |
| | | | Financial Liabilities | | | |
| (543) | - | - | Derivative contracts | (295) | - | - |
| - | - | - | Other Investment Balances | - | - | (1,092) |
| - | - | (811) | Creditors | - | - | (1,481) |
| (543) | - | (811) | Financial Liabilities Total | (295) | | (2,573) |
| 556,911 | 18,569 | (811) | Grand total | 551,684 | 23,830 | (2,573) |
| 574,669 | | | | 572,941 | | |

16. Financial Instruments

(b) Net Gains and Losses on Financial Instruments

| 2014/15 £000 | | 2015/16 £000 |
|-----------------|---------------------------------|-----------------|
| | Financial assets | |
| 63,061 | Fair value through fund account | (8,336) |
| - | Loans and receivables | - |
| | Financial liabilities | |
| - | Fair value through fund account | - |
| - | Loans and receivables | - |
| 63,061 | Total | (8,336) |

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

(c) Valuation of financial instruments carried out at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

| | Quoted Market price | Using observable inputs | With significant unobservable inputs | |
|--|--------------------------------|------------------------------------|---|-----------------------|
| Values at 31 March 2016 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
| Financial Assets | | | | |
| Financial assets at fair value through fund account | 518,361 | 169 | 33,449 | 551,979 |
| Loans and receivables | 23,830 | - | - | 23,830 |
| Total Financial Assets | 542,191 | 169 | 33,449 | 575,809 |
| Financial Liabilities | | | | |
| Financial liabilities at fair value through fund account | (295) | - | - | (295) |
| Financial liabilities at amortised cost | (2,573) | - | - | (2,573) |
| Total Financial Liabilities | (2,868) | - | - | (2,868) |
| Net Financial Assets | 539,323 | 169 | 33,449 | 572,941 |

| | Quoted Market price | Using observable inputs | With significant unobservable inputs | |
|---|---------------------|-------------------------|--------------------------------------|----------------|
| Values at 31 March 2015 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
| Financial Assets | | | | |
| Financial assets at fair value through profit and loss | 531,112 | 19 | 26,341 | 557,472 |
| Loans and receivables | 18,551 | - | - | 18,551 |
| Total financial Assets | 549,663 | 19 | 26,341 | 576,023 |
| Financial Liabilities | | | | |
| Financial liabilities at fair value through profit and loss | (543) | - | - | (543) |
| Financial liabilities at amortised cost | (811) | - | - | (811) |
| Total Financial Liabilities | (1,354) | - | - | (1,354) |
| Net Financial Assets | 548,309 | 19 | 26,341 | 574,669 |

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

17. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

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

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

| | Quoted Market price | Using observable inputs | With significant unobservable inputs | |
|--|------------------------|----------------------------|--|----------------|
| Values at 31 March 2016 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
| Financial Assets | | | | |
| Financial assets at fair value through fund account | 518,361 | 169 | 33,449 | 551,979 |
| Loans and receivables | 23,830 | - | - | 23,830 |
| Total Financial Assets | 542,191 | 169 | 33,449 | 575,809 |
| Financial Liabilities | | | | |
| Financial liabilities at fair value through fund account | (295) | - | - | (295) |
| Financial liabilities at amortised cost | (2,573) | - | - | (2,573) |
| Total Financial Liabilities | (2,868) | - | - | (2,868) |
| Net Financial Assets | 539,323 | 169 | 33,449 | 572,941 |

| | Quoted Market price | Using observable inputs | With significant unobservable inputs | |
|---|------------------------|----------------------------|--|----------------|
| Values at 31 March 2015 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
| Financial Assets | | | | |
| Financial assets at fair value through profit and loss | 531,112 | 19 | 26,341 | 557,472 |
| Loans and receivables | 18,551 | - | - | 18,551 |
| Total financial Assets | 549,663 | 19 | 26,341 | 576,023 |
| Financial Liabilities | | | | |
| Financial liabilities at fair value through profit and loss | (543) | - | - | (543) |
| Financial liabilities at amortised cost | (811) | - | - | (811) |
| Total Financial Liabilities | (1,354) | - | - | (1,354) |
| Net Financial Assets | 548,309 | 19 | 26,341 | 574,669 |

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

17. Nature and Extent of Risks Arising from Financial Instruments

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there is sufficient liquidity to meet the Fund's forecast cash flows. The Authority manages these investment risks as part of its overall pension fund risk management programme.

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

| Asset Type | 31 March 2016 Potential market movements (+/-) | 31 March 2015 Potential market movements (+/-) |
|-------------------------|---|---|
| Global Equities inc. UK | 11.30% | - |
| Fixed Interest Bonds | 8.18% | 7.74% |
| Index Linked Bonds | 10.82% | 11.26% |
| Global Pooled inc UK | 4.78% | 9.04% |
| Property | 2.69% | 4.86% |
| Cash | 0.01% | 0.01% |

The potential price changes disclosed above are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend on the Funds asset allocations. The potential volatilities are consistent with a one-standard deviation movement in the value of assets over the last three years. This can be applied to the period end asset mix.

If the market price of the Fund's investments had increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

| Asset Type | Value as at 31 March 2016 £000 | Change % | Value on Increase £000 | Value on Decrease £000 |
|------------------------|---|---------------------|---------------------------------------|---------------------------------------|
| Global Equities inc.UK | 20,387 | 11.30% | 22,690 | 18,083 |
| Fixed Interest Bonds | 74,018 | 8.18% | 80,073 | 67,964 |
| Index linked Bonds | 66,190 | 10.82% | 73,352 | 59,028 |
| Global Pooled inc.UK | 357,870 | 4.78% | 374,976 | 340,764 |
| Property | 33,449 | 2.69% | 34,349 | 32,549 |
| Cash | 7,187 | 0.01 | 7,188 | 7,186 |
| Total | 559,101 | | 592,628 | 525,574 |

| Asset Type | Value as at 31 March 2015 £000 | Change % | Value on Increase £000 | Value on Decrease £000 |
|----------------------|---|---------------------|---------------------------------------|---------------------------------------|
| Global Pooled inc.UK | 385,592 | 9.04 | 420,450 | 350,734 |
| Fixed Interest Bonds | 81,916 | 7.74 | 88,256 | 75,576 |
| Index linked Bonds | 63,591 | 11.26 | 70,751 | 56,431 |
| Property | 26,341 | 4.86 | 27,621 | 25,061 |
| Cash | 9,044 | 0.01 | 9,045 | 9,043 |
| Total | 566,484 | | 616,123 | 516,845 |

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below.

These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest Rate Risk Sensitivity Analysis

The Pension Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

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

The analysis that follows assumes all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1%) change in interest rates

| Assets exposed to interest rate risk | Value as at 31 March 2016 £000 | Potential movement on 1% change in interest rates | Value on increase £000 | Value on Decrease £000 |
|--------------------------------------|-----------------------------------|---|---------------------------|---------------------------|
| Bond Securities | 140,208 | 1,402 | 141,610 | 138,806 |
| Cash and Cash Equivalents | 7,188 | 72 | 7,260 | 7,116 |
| Total Change in Asset Value | 147,396 | 1,474 | 148,870 | 145,922 |

| Assets exposed to interest rate risk | Value as at 31 March 2015 £000 | Potential movement on 1% change in interest rates | Value on increase £000 | Value on Decrease £000 |
|--------------------------------------|-----------------------------------|---|---------------------------|---------------------------|
| Bond Securities | 145,507 | 1,455 | 146,962 | 144,052 |
| Cash and Cash Equivalents | 9,044 | 90 | 9,134 | 8,954 |
| Total Change in Asset Value | 154,551 | 1,545 | 156,096 | 153,006 |

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

Currency risk represents the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund, i.e. pounds sterling.

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's performance measurement service it has been determined that a likely volatility associated with foreign exchange rate movements is 7.80% over a rolling 36 month period.

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

A 7.80% strengthening and weakening of the pound against the various currencies in which the Fund holds investments would increase or decrease the net assets available to pay benefits as follows:

| Assets exposed to currency risk | Value as at 31 March 2016 £000 | Potential Market movement 7.80% | Value on increase £000 | Value on Decrease £000 |
|---|---|--|-----------------------------------|-----------------------------------|
| Overseas Equities | 19,113 | 1,491 | 20,604 | 17,622 |
| Overseas Pooled | 1,901 | 148 | 2,049 | 1,753 |
| Overseas Index Linked Bonds | 13,094 | 1,021 | 14,115 | 12,073 |
| Overseas Cash | 26 | 2 | 28 | 24 |
| Total change in assets available to pay benefits | 34,134 | 2,662 | 36,796 | 31,472 |

| Assets exposed to currency risk | Value as at 31 March 2015 £000 | Potential Market movement 7.80% | Value on increase £000 | Value on Decrease £000 |
|---|---|--|-----------------------------------|-----------------------------------|
| Overseas Equities | 20,485 | 1,510 | 21,995 | 18,975 |
| Overseas Pooled | 2,249 | 166 | 2,415 | 2,083 |
| Overseas Index Linked Bonds | 13,094 | 965 | 14,059 | 12,129 |
| Overseas Cash | 140 | 10 | 150 | 130 |
| Total change in assets available to pay benefits | 35,968 | 2,651 | 38,619 | 33,317 |

(b) Credit Risk

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

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

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

(c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Administering Authority therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. The Pension Fund has immediate access to its cash holdings that are invested by the Authority and periodic cash flow forecasts are prepared to manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund's cash management policy and in line with the Fund's investment strategy holds assets that are considered readily realised.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2016 the value of liquid assets was £522m, which represented 93% of the total Fund (31 March 2015 £540m, which represented 95% of the total fund assets).

(d) Refinancing Risk

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

18. Funding Arrangements

London Borough of Havering (“the Fund”)

Actuarial Statement for 2015/16

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

Description of Funding Policy

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

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

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

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 60% chance that the Fund will return to full funding over 20 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 2013. This valuation revealed that the Fund’s assets, which

at 31 March 2013 were valued at £461 million, were sufficient to meet 61% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £292 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014.

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 2013 valuation were as follows:

| Assumptions | 31 March 2013 | |
|-----------------------------------|----------------------|-------------|
| | Nominal | Real |
| Discount Rate for Period | 4.8% | 2.3% |
| Pay increases * | 3.3% | 0.8% |
| Price inflation/Pension increases | 2.5% | - |

The key demographic assumption was the allowance made for longevity. The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| | Males | Females |
|--------------------|--------------|----------------|
| Current Pensioners | 22.1 years | 24.1 years |
| Future Pensioners | 24.2 years | 26.7 years |

* *Currently aged 45*

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from the London Borough of Havering, Adminstrating Authority to the Fund.

Experience over the period since April 2013

Real bond yields have fallen placing a higher value on liabilities. The effect of this has been offset by the effect of strong asset returns and deficit contributions. Funding levels are therefore likely to have improved marginally and deficits fallen over the period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Employers' contribution rates for the Authority, in line with the actuary's recommendation are as shown below:

| | Future Service | Past Service | Total Pensionable Pay |
|----------------------|-----------------------|---------------------|------------------------------|
| | % | % | % |
| April 14 to March 15 | 15.6 | 6.4 | 22.0 |
| April 15 to March 16 | 15.6 | 6.4 | 22.0 |
| April 16 to March 17 | 15.6 | 6.4 | 22.0 |

The employer contributions for the other employers in the Fund range from 17.3% to 28.7% of pensionable pay.

19. Actuarial Present Value of Promised Retirements

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS19 basis, every year using the same base data as the Funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18).

| 31 March 2015 | Year Ended | 31 March 2016 |
|----------------------|---|----------------------|
| £m | | £m |
| 1,019 | Present Value of Promised Retirement Benefits | 992 |
| 575 | Fair Value of Scheme assets (bid Value) | 572 |
| 444 | Net Liability | 420 |

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the actuary satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. The actuary has not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

It is estimated that this liability at 31 March 2016 comprises £476m (£460m 31 March 2015) in respect of active members, £153m in respect of deferred pensioners (£164m 31 March 2015) and £363m in respect of pensioners (£395m 31 March 2015). The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the actuary is satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. No allowance has been made for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of

the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. They are given below. It is estimated that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £51m.

Financial assumptions

The actuary's recommended financial assumptions are summarised below:

| Year Ended | 31 March 2016 | 31 March 2015 |
|----------------------------------|---------------|---------------|
| | % p.a. | % p.a. |
| Inflation/Pensions Increase Rate | 2.1 | 2.1 |
| Salary Increase Rate | 3.1 | 3.0 |
| Discount Rate | 3.4 | 3.1 |

Longevity assumption

As discussed in Note 18, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| | Males | Females |
|--------------------|------------|------------|
| Current Pensioners | 22.1 years | 24.1 years |
| Future Pensioners | 24.2 years | 26.7 years |

*Future pensioners are assumed to be currently aged 45 at the most recent formal valuation as at March 2013.

Please note the longevity assumptions are identical to last year's IAS26 disclosure for the Fund..

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Professional notes

This note accompanies the covering report titled 'Actuarial Valuation as at 31 March 2016 for IAS19 accounting purposes. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

20. Current Assets

| 2014/15 £000 | | 2015/16 £000 |
|-----------------|------------------------------------|-----------------|
| | Debtors: | |
| 8 | Pension Grants | - |
| 7 | Other Local Authorities | - |
| 345 | Contributions due from employers | 288 |
| 71 | Contributions due from employees | 82 |
| - | Pension Fund Investment Interest | 67 |
| 2,608 | Pension Fund Bank Account Balances | 675 |
| 2 | Debtors Refund | - |
| 5,298 | Cash deposit with LB Havering | 12,595 |
| 8,339 | Current Assets | 13,707 |

| 2014/15 £000 | Analysis of Debtors | 2015/16 £000 |
|-----------------|--------------------------------------|-----------------|
| 8 | NHS Bodies | - |
| 7 | Other local authorities | - |
| 345 | Public corporation and trading funds | 288 |
| 73 | Other entities and individuals | 82 |
| 433 | Total Debtors | 370 |

21. Current Liabilities

| 2014/15 £000 | | 2015/16 £000 |
|-----------------|-----------------------|-----------------|
| | Creditors: | |
| (188) | Unpaid Benefits | (883) |
| (263) | Accrued Expenses | (251) |
| (305) | Income Tax Recoveries | (320) |
| (3) | Holding Accounts | (27) |
| (759) | | (1,481) |

| 2014/15 £000 | Analysis of Creditors | 2015/16 £000 |
|-----------------|--------------------------------|-----------------|
| (759) | Other entities and individuals | (1,481) |
| (759) | Total | (1,481) |

22. Additional Voluntary Contributions

| Market Value 2014/15 £000 | AVC Provider | Market Value 2015/16 £000 |
|------------------------------------|---------------|------------------------------------|
| 803 | Prudential | 707 |
| 160 | Standard Life | 169 |

Some employees made additional voluntary contributions (AVC's) of £54,827 (2014/15 £62,496) excluded from these statements. These are deducted from the employees' salaries and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2015/16 were £40,807 (2014/15 £47,380) to the Prudential and £14,020 (2014/15 £15,116) to Standard Life.

23. Agency Services

Havering Council pays discretionary awards to the former employees of Havering. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below.

| 2014/15 £000 | | 2015/16 £000 |
|-----------------|--|-----------------|
| 1,464 | Payments on behalf of Havering Council | 1,452 |

24. Related Party Transactions

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Fund, or to be controlled or influenced by the Fund.

The Havering Pension Fund is administering by Havering Council and consequently there is a strong relationship between the Authority and the Pension Fund. In 2015/16, £0.450m was paid to the Authority for the cost of administering the Fund (2014/15 £0.411m).

The Authority is also the largest employer in the Fund and in 2015/16 contributed £27.798m (2014/15 £22.526m) to the Pension Fund in respect of employer's contributions.

Part of the Pension Fund internal cash holdings are invested on the money markets by the treasury management operations of Havering Council, through a service level agreement. As at 31 March 2016 cash holdings totalled £12.9m (2014/15 £7.6m), earning interest over the year of £67k (2014/15 £47k).

Governance

Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Group Director of Communities and Resources.

No members of the Pension Fund Committee are in receipt of pension benefits from the Havering Pension Fund.

Each member of the Pension Fund Committee is required to declare their interests at each meeting.

During the year no Member or Council officer with direct responsibility for Pension Fund issues has undertaken any declarable material transactions with the Pension Fund.

The members of the Pensions Committee do not receive fees in relation to their specific responsibilities as members of the Pensions Committee.

Key Management Personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit Regulations 2015 satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 244. This applies in equal measure to the accounts of the Havering Pension Fund.

The disclosures required by the above legislation can be found in the main accounts of Havering Council.

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2016 totalled £186k (2014/15 £186k). This relates to an outstanding commitment due on an unquoted private equity fund.

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

Following the Freedom and Choice provisions announced in the 2014 Budget, the Pension Fund has seen some enquiries from members about transferring benefits out of the LGPS. As mentioned in Note 10 there are potential liabilities of £0.8m in respect of individuals transferring out of the pension Fund upon whom the Fund is awaiting final decisions. Information is not available which shows how much of this is attributable to Freedom and Choice provisions.

26. Contingent Assets

Three admitted bodies in the Havering Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds total £4.2m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Five admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.7m.

27. Impairment Losses

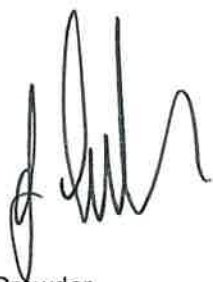
There were no material impairment losses for bad and doubtful debts as at 31 March 2016.

Statement of Responsibilities

The Authority's Responsibilities

The Authority 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 Authority, that officer is the Group Director of Communities and Resources.
- Manage its affairs to secure economic efficient and effective use of resources and safeguard its assets.
- Approve the Pension Fund Statement of Accounts.



Councillor John Crowder
Chairman, Pensions Committee
Date:

The Chief Executive's Responsibilities

The Section 151 Officer is responsible for the preparation of the Authority'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).

In preparing this Pension Fund Statement of Accounts, the Section 151 officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code

The Section 151 Officer 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 the true and fair financial position and transactions of the Authority as at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.



Andrew Blake-Herbert
Chief Executive
Date: 29/9/2016

Independent auditors' statement to the Members of the London Borough of Havering (the "Authority") on the Pension Fund financial statements

We have examined the pension fund financial statements for the year ended 31 March 2016, which comprise the:

- Fund Account;
- Net Assets Statement; and
- Related notes 1 to 27.

This report is made solely to the members of London Borough of Havering, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Executive and the auditor

As explained more fully in the Statement of the Chief Executive's Responsibilities set out on page 73, the Chief Executive is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Havering, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only of the Introduction, Scheme Administration Report, Administering Authority Report, Investment Report and Appendices.

We conducted our work in accordance with guidance issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinions on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Havering for the year ended 31 March 2016 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Melissa Hargreaves
for and on behalf of Ernst & Young LLP, Appointed Auditor
Manchester
September 2016

Pensions Administration Strategy

Under regulation 34(1) (g) and in accordance with regulation 65 (2) (b) of the Local Government Pension Scheme (Administration) Regulations 2008, an administering authority has the option to include an annual report dealing with the fund's 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 Administering Authority has not adopted an Administration Strategy it has documents that cover the information on the pension scheme, forms and contribution schedules. Arrangements are made to meet all new scheme employers where their responsibilities are set out, service standards are outlined and electronic copies of all information, forms and schedules are provided. Employing authorities must ensure proper records of staff are kept so that the right contributions are paid and staff receives the benefits to which they are entitled when they leave employment.

Funding Strategy Statement

The Fund publishes a Funding Strategy Statement (FSS) in accordance with Regulation 58 of the LGPS Regulations 2013.

The Regulation requires the Pension Fund Administering Authority to publish a statement, keep its statement under review and to make such revisions as are appropriate following a material change to its policy as set out in the statement.

The Administering Authority produces a Funding Strategy Statement (FSS) in collaboration with The Fund's Actuary, Hymans Robertson, and after consultation with the Fund's employers. It incorporates the aims and purposes of the Fund and establishes a strategy which identifies the pension fund liabilities and how these will be met over the long term. It also encompasses the overall investment strategy.

The FSS was reviewed as part of the 2013 valuation process and produced in line with the revised and updated guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2012. The current FSS is operative from 1 April 2014.

This document can be found in the appendices attached to this report and is available on the Authority's website by selecting the link [Havering Pension Fund](#)

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

Statement of Investment Principles

The Local Government Pension Scheme regulations require the administering authority to prepare and publish a Statement of Investment Principles (SIP). This Statement sets out the Authority'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 affect investments.

A report commissioned by the Government, 'The Myners Report', recommended ten principles of best practice in managing Pension Fund investments. The Authority'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 was 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 2009. 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 Authority's website by selecting the link [Havering Pension Fund](#)

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

Communication Policy Statement

The Local Government Pension Scheme Administration Regulations 2015 requires the administering authority to prepare and publish a written statement covering communications with scheme members and employing authorities.

The statement must set out the policy concerning:





- communications with members, representatives, prospective members and employing authorities
- format, frequency and method of distributing such information or publicly
- The promotion of the scheme to prospective members and their employers












This statement is reviewed periodically. A revised Communications Policy Statement was approved at the Pension Committee on 24th November 2015 for the period 2016 – 2018. A review of the Communication Strategy achievements for 2015/16 is shown below.





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

This Statement has also been published on the Authority's website by selecting the link [Havering Pension Fund](#)














Communication Policy Delivery






























| Communication Responsibilities | Paper | Electronic | Web | Face | Achieved |
|--|-------|---|---|------|--|
| Action 1 – Get ready for new challenges for active members | | | | | |
| Review employee communications methods to ensure that they are efficient as well as effective | | |  | | Continuing to review and update pension website for content and to make it easier to find information, created a factsheet to assist scheme members use the online calculators and modellers. |
| Promote use of the LBH pension website www.yourpension.org.uk/handr and the Council's Pension Fund pages, www.havering.gov.uk/pages/services/pension-fund.aspx | |  |  | | Continue to promote websites at all meetings and in all communications – (letters and phone calls). Also a QR code is printed on key documents produced by the pension administration team All updated option forms are only available via the website unless no access to a computer. This was essential for Automatic re-enrolment. |
| Explore development of member online access to the pension administration system in line with self service | | |  | | Contracted for, as part of new pension system, on-going for 2015/16 implementation. Updated joiners option forms to capture the email addresses ready for setting members up for Member Self Service (MSS). Testing has now started on the usage, in consultation with internal audit. |
| Explore the development of member online benefit statements in line with | | | | | In the process of being developed and dependant on the above action |


| Communication Responsibilities | Paper | Electronic | Web | Face | Achieved |
|--|-------|---|---|---|--|
| self service | | | | | |
| Support the Pension Team staff in developing communication skills through training, support and on the job training to increase their overall skills and knowledge | | | |  | A rota of team members have supported senior staff at all communication meetings – new scheme presentations and road shows, pre-retirement courses and new employer introduction meetings. Also started to allocate employers to Senior Transactional Agents to manage support and communications. |
| Action 2 – Get ready for new challenges for employers | | | | | |
| Maximise the use of the newly developed Pensions Team employer communication database | |  | | | Used for all electronic communications, in particular new scheme information and automatic enrolment information |
| Distribute material for employers to issue to employees | |  |  | | All new scheme information has been distributed (using the electronic database) – New Scheme Overview, Annual Allowance briefings, new scheme forms, Payroll and HR Scheme Guides, Contribution band letters etc. |
| Work with employers to ensure they communicate effectively and efficiently with their employees | |  |  |  | Apart from the electronic communications via the database, face-to-face meetings have been held with all employers to help them understand their employer responsibilities and data requirements of the new scheme. Meetings on Employer Discretions together with new employer meetings are also held, together with year-end requirements. |
| Continually review and improve the material and service available to employers via the LBH pension website(www.yourpension.org.uk/handr , and the Council website, www.haverling.gov.uk/pages/servoces/pension-fund.aspx | | |  | | A new employer tab has continued to be developed on the pension website and has been updated for the new CARE 2014 scheme. A Local Pension Board tab has also been created, holding links to agendas and minutes of all LPB meetings, board member contact details, and the role and responsibilities of the board members. A new TUPE manual has been commissioned to support scheme employers to understand their responsibilities and implications when outsourcing; this will be available via the website when completed. |
| Collate Employer Discretion Documents | |  |  |  | Published policies and Employer discretions, where available, on the pension website. 29 out of 32 employers in the fund have their discretions in place and published. |

| Communication Responsibilities | Paper | Electronic | Web | Face | Achieved |
|---|-------|---|-----|---|--|
| Explore online access for scheduled and admitted bodies to automate interfaces and updates, reducing administrative overheads | |  | | | Worked with the London Borough of Havering on the development of the One Oracle interfaces, which have been tested and in the process of being implemented |
| Regular meetings with Scheme Employers | | | |  | As above |
| Allocated Specialist Senior Transactional (STA) Agent to each employer as employer liaison officers | |  | |  | All employers have a Senior Transactional agent and Team Lead for any data issues and the allocation of a benefits specialist is being rolled out |
| Action 3 – Get ready for new challenges for pensioners | | | | | |
| Explore development of member online access to the pension administration system in line with self-service | | | | | See above re member self-service (MSS), in development. |

Communication Material

| Communication material | Paper | Electronic | Web | Face | frequency | Intended Audience, : Active = A, Deferred = D Pensioner = P, Prospective members = PM Employers = E Or - ALL |
|---------------------------------|---|---|---|------|---|--|
| payslips |  |  | | | Monthly, electronic for Corporate staff | A |
| payslips |  | | | | April, May and October | P |
| Information packs for new staff | |  |  | | With the offer of the job, and when enrolled under Automatic enrolment duties | PM |
| newsletters |  |  |  | | When required | All but targeted as appropriate |
| Pension updates |  |  |  | | When required | All but targeted as appropriate |
| Annual Benefit Statement |  | | | | Annually, July / August | A, D, |
| Notice of Pension Increase |  | | | | Annually | P |

| Communication material | Paper | Electronic | Web | Face | frequency | Intended Audience, : Active = A, Deferred = D Pensioner = P, Prospective members = PM Employers = E Or - ALL |
|---|---|---|---|---|-------------------------|--|
| Letters / Enquiries |  |  | | | As required | ALL |
| Estimates |  | | | | As required | A, D |
| Forms |  |  |  | | | ALL |
| Factsheets | |  |  | | For viewing as required | ALL |
| Scheme Guides | | |  | | | ALL |
| Global emails | |  | | | As required | A - Corporate |
| Pop ups | |  | | | As required | A - Corporate |
| Core Briefs | |  | | | As required | A - Corporate |
| School Portal | |  | | | As required | A – school based |
| Year End requirements information | |  |  |  | Annually | E not on the corporate payroll |
| Induction Sessions | | | |  | As Required | PM, carried out by HR team but supported by Pensions Team, |
| Roadshows | | | |  | As required | |
| Pre-retirement Seminars | | | |  | Twice yearly | P and prospective Pensioners |
| Communications Strategy | | |  | | Reviewed 3 yearly | ALL |
| Communications Policy Statement | | |  | | Reviewed annually | ALL |
| Annual Report & Accounts | | |  | | Annually | ALL |
| Whistleblowing Policy | | |  | | | ALL |
| Funding Strategy Statement | | |  | | | ALL |
| Statement of Investment Principles | | |  | | | ALL |
| Specialised information leaflets – Annual Allowance | | |  | | As required | ALL |
| Assistance for new employers on their | |  |  |  | As required | E |

| Communication material | Paper | Electronic | Web | Face | frequency | Intended Audience, : Active = A , Deferred = D Pensioner = P , Prospective members = PM Employers = E Or - ALL |
|---|-------|------------|-----|---|--------------------|--|
| responsibilities | | | | | | |
| Assistance and Support at TUPE Roadshows | | | |  | As required | A, E |

The pension website is promoted on the staff intranet at the Council and in posters placed on staff notice boards in all Council buildings to ensure information on the pension scheme is accessible and available to everyone, not just scheme members. It is also advertised on payslips produced by oneSource Payroll Services on a regular basis.

The website has been further enhanced to provide links to DirectGov, for information on the new Single Tier State Pension

The Council jobs page includes, within the General Conditions of Employment, relevant for all potential and actual applicants, information on the Local Government Pension Scheme.

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@haverling.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@haverling.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/handr (site managed by the London Pension Fund Authority)

The Pension Service website: www.thepensionservice.gov.uk www.gov.uk/browse/working/state-pension

APPENDICES



Havering
L O N D O N B O R O U G H

PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

Updated November 2015

1. STRUCTURE AND ROLE OF MEMBERS

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

Day to day management of the Fund is delegated to the Group Director of Communities and Resources

1.1 Role of Pensions Committee

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

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

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

1.2 Role of Local Pension Board (the Board)

The functions of this board are as follows:

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

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

The full version of the Board's Terms of reference can be found on the Havering pension fund website: www.Yourpension.org.uk.

2. MEMBERSHIP AND REPRESENTATION

2.1 Pensions Committee

The membership of the Pensions Committee reflects the political balance of the Council and consists of seven councillors as listed below:

| Conservative Group (3) | Resident's Group (2) | East Havering Resident's Group (1) | UKIP (1) |
|--|--------------------------------|------------------------------------|----------------------------|
| John Crowder (Chair) Melvin Wallace Roger Westwood | John Mylod * Stephanie Nunn | Clarence Barrett | David Johnson (Vice-Chair) |

*From June 2015 Cllr John Mylod was replaced by Cllr Ray Morgon - Residents Group

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

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

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, unless exceptional circumstances require a change. Furthermore substitute members are expected to have also been trained. The Council's constitution was amended on the 28 March 2012 to include a stipulation that if a member does not undertake the required training within six months of appointment then that member shall not partake in the decision making of the Committee until their training has been completed.

2.2 Local Pension Board

The Havering Pension Board consists of four members as follows:

Two Employer representatives - shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. No officer or elected member of the Administering Authority who is responsible for the discharge of any function of the Administering Authority under the Regulations may serve as a member of the Board.

Two Scheme Member Representatives - shall either be scheme members or have capacity to represent scheme members of the Fund. Scheme member representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

Chair - Chair is to be appointed by the employer and scheme member representatives of the Board from amongst their own number on a rotating basis with the term of office shared between an employer and a scheme member representative on an equal basis.

Each employer representative and scheme member representative appointed will serve for a fixed four year period to ensure that expertise is maintained within and members can be fully trained.

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

3. GUIDANCE AND MONITORING

3.1 Pensions Committee

The Pensions Committee is supported by the Group Director of Communities and Resources and the Director of Legal and Governance (oneSource). The Director of Exchequer and Transactional Services (oneSource) has the responsibility to administer the Council's Pension Fund. Members also receive briefings and advice from the Fund's investment advisor at each committee meeting.

The Pensions 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.

Investment Managers are invited to present at the Pensions Committee meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exceptions to this procedure are the pooled managers who will attend two meetings per year, one with Officers and one with the Pensions Committee. However if there are any specific matters of concern to the Committee relating to the managers performance, arrangements will be made for additional presentations.

3.2 Local Pension Board

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

4. REIMBURSEMENT

4.1 Pensions Committee

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

4.2 Local Pension Board

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

Reasonable travelling expenses for training will be reimbursed.

5. TRAINING

5.1 Pensions Committee

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

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

5.2 Local Pension Board

A joint training strategy is currently being developed and will be presented to the Pensions Committee and the Board during 2015/16.

6. MEETINGS

6.1 Pensions Committee

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

6.2 The Local Pension Board

The Board will hold five meetings per year, approximately two weeks after the Pensions Committee meeting, with one Annual meeting being held at the beginning of the committee cycle. Three members constitute quorum. Advisors and officers do not count towards the quorum.

7. SCOPE

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.
- The Funding Strategy Statement identifies the measures in place to control the key risks identified as financial (including investment risk), demographic, regulatory and governance.
- The Risk Register identifies the key risks that the Pension Fund may face and the measures that can and have been put in place to mitigate those risks
- The Pension Committee periodically sets out a business plan for the year.

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

8. ACCESS AND PUBLICATION

8.1 Pensions Committee

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

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

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

8.2 Local pension Board

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

9. REVIEWING AND UPDATING

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

10.COMPLIANCE TABLE

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

| PRINCIPLE | HAVERING POSITION |
|---|--|
| <p>A. <u>Structure</u></p> <p>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.</p> <p>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.</p> <p>c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> <p>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.</p> | <p>Full compliance. Duties and terms of reference are laid out in the Council's constitution (Part 3) and states that management of the pension fund assets lies with the Pensions Committee. Day to day management of the Pension Fund is delegated to the Group Director of Communities and Resources. Select link to Havering Website to read the Council's constitution: Havering Constitution</p> <p>Section 1 the Governance Compliance Statement refers.</p> <p>Full compliance. Admitted/Scheduled bodies may appoint one representative to attend the committee meetings. The staff Trade Unions may appoint two representatives to attend and speak at meetings.</p> <p>There is no secondary committee.</p> <p>Section 2 of the Governance Compliance Statement refers.</p> <p>No secondary committee or panel has been established.</p> <p>No secondary committee or panel has been established.</p> |

| | PRINCIPLE | HAVERING POSITION |
|---|---|---|
| B | <p><u>Committee Membership and Representation</u></p> <p>a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis) | <p>i) Full compliance - A position has been established for Admitted/Scheduled bodies' representative to be a member of the Pensions Committee and is currently occupied by the bursar from St Edwards Church of England School. Supplementary to the above stakeholders are consulted for their views with regard to various policies and are directed to papers and reports held on the Council's website.</p> <p>ii) Full compliance – via trade union representation</p> <p>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.</p> <p>iv) Full compliance – The Fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required.</p> <p>Sections 2 and 3 of the Governance Compliance Statement refers.</p> |

| | 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 'Council's constitution and states that management of the pension fund lies with the Pensions Committee. Sections 1 and 2 of the Governance Compliance Statement refer. |
| | 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 1 of the Governance Compliance Statement refers. |
| D | <u>Voting</u> 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. | Full compliance. The Governance Compliance Statement is clear about voting rights Section 2 of the Governance Compliance Statement refers. |
| E | <u>Training/Facility time/Expenses</u> 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). The Business Plan includes the policy on training. Sections 4 and 5 of the Governance Compliance Statement refer. |
| | 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 administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken | Full compliance. As above. Training is laid out in the Annual Business Plan/Work of the Committee. The Business Plan is agreed by the Pensions Committee and all committee members and nominated substitutes are offered training. A training log is maintained and records attendance and training undertaken. Section 5 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. Section 6 of the Governance Compliance Statement refers. |
| | 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 includes a representative to serve all Admitted/Scheduled bodies. The current forums for which stakeholders interests can be represented are: <ul style="list-style-type: none"> • 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. Factsheets and scheme communications are also published on this website along with contact details at Havering for members to contact with their views. |

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



Havering

L O N D O N B O R O U G H

HAVERING PENSION FUND COMMUNICATION STRATEGY

2016-2018

COMMUNICATION STRATEGY 2016 - 2018

INTRODUCTION

The Local Government Pension Scheme (LGPS) moved to a Career Average Revalued Earnings (CARE) basis from April 2014

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

The scheme stakeholders include:

- COMMITTEE MEMBERS
- EMPLOYERS including
 - LONDON BOROUGH OF HAVERING
 - SCHEDULED BODIES
 - ADMITTED BODIES
 - LOCAL PENSION BOARD
 - PENSION PANEL
- SCHEME MEMBERS
 - ACTIVE MEMBERS (CONTRIBUTORS)
 - RETIRED MEMBERS AND DEPENDENTS
 - DEFERRED MEMBERS
 - PENSION CREDIT MEMBERS
- PROSPECTIVE SCHEME MEMBERS
- OFFICERS WORKING IN THE ONESOURCE PENSION TEAM AND FUND MANAGEMENT
- INVESTMENT FUND MANAGERS
- OTHER BODIES
 - TRADE UNIONS
 - ACTUARIES
 - LEGAL ADVISER
 - AVC PROVIDERS
 - PENSION ADMINISTRATION SOFTWARE PROVIDER
 - INVESTMENT ADVISOR

Set out in this document are the key communication priorities, the mechanisms and format which will be 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, with the methods used being kept under review.

The frequency of communications and publicity is detailed in the following relevant sections where already determined, otherwise information will be provided in the most effective, economic and timely manner.

COMMUNICATION DELIVERABLES

There are three areas of significant challenge that will drive the communication strategy during the period 2016 – 2018:

- i) Automatic Re-enrolment;
- ii) The Triennial Revaluation; and
- iii) The introduction of Member Self-service.

The key actions required to deliver the focus of the strategy follow. These are the basis of the Communication Strategy monitoring.

The Key actions will be -

Action 1 – Active Members

- Continue to review employee communications methods to ensure that they are efficient as well as effective
- Continue to promote use of the LBH pension website, www.yourpension.org.uk/handr and the Council's Pension Fund pages, www.havering.gov.uk/pages/services/pension-fund.aspx

- Continue in the development of member online access to their pension record in line with oneSource self-service,
- explore the development of member online Annual Benefit statements via Member Self Service,
- support the Pension Team staff in developing communication skills through training, support and on the job training to increase their overall skills and knowledge.

Action 2 – Employers:

- continue to maximise the use of the developed Pensions Team employer communication database
- distribute material for employers to issue to employees
- work with employers to ensure they communicate effectively and efficiently with their employees
- continually review and improve the material and service available to employers via the LBH pension website
www.yourpension.org.uk/handr, and the Council website,
www.havering.gov.uk/pages/services/pension-fund.aspx
- Complete the collation and publication of Employer Discretion Documents
- explore online access for scheduled and admitted bodies to automate interfaces and updates, reducing administrative overheads
- regular meetings with Scheme Employers,
- allocated Specialist Senior Transactional Agent to each employer as employer liaison officers.

Action 3 – Pensioners:

- explore development of member self-service access to their pension

record on the administration system in line with oneSource self-service.

Action 4 – Deferred Pensioners:

- explore development of member self-service access to their pension record on the administration system in line with oneSource self-service.

COMMUNICATION RESPONSIBILITIES AND METHODS

The provision of timely and relevant information to stakeholders is key to managing the need for information and it is important we manage these expectations in resource terms (i.e. staff time).

The most efficient form of communication channel is on-line self-service and the least efficient channel is face-to-face, although the customer profile dictates the most effective communication channel.

A continual review of the effectiveness and efficiency of all communication channels takes place, aiming at developing the more efficient channels. The channels on order of efficiency are:

- on-line self-service,
- websites,
- employer newsletters and electronic updates,
- anticipating and targeting appropriate information to members via e-communication routes,
- anticipating and targeting appropriate information to members via hardcopy distribution,
- responding within set targets to incoming email (generic inbox),
- responding within set targets to incoming phone calls (generic phone number),

- regular meetings with External Employers (joint meetings and individual surgeries),
- roadshows for groups of Fund members,
- meeting Fund members individually face-to-face,

The Pensions Team consider the costs and benefits of all our future communications activities with a view to using the most efficient and effective methods, subject to appropriate systems to facilitate efficient communication methods with more members of the scheme than is the case at present. An example of “savings” has been the change to a generic letter to pensioners detailing the pensions increase which was sent with the April payslips, saving postage costs and officer time checking the previous bespoke letters.

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. This position has been assigned voting rights from March 2012. 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.

Reports were taken to Pensions committee during the year regarding / covering \LGPS Governance Reform, LGPS Administering Authority's Discretion Policies, LGPS Employer Discretions Policies and Pension fund Charging Policy.

LOCAL PENSION BOARD

Legislation required the creation of a Local Pension Board by 1 April 2015. The role of the board being to assist the Authority's Pension Manager in executing her duties.

A joint working party with L B Newham staff met regularly to ensure that the Terms of Reference and makeup of the board was agreed by Council in time.

SCHEME EMPLOYERS

Recent Changes

Following the Education Act 2011 there has been a significant growth in scheme employers due to the rising number of Secondary schools converting to Academies in the borough, and this trend is still continuing with Primary school Academies now being formed. Officers of the pension team continue to support new Academies as separate employers with the breadth of their new responsibilities. Experience so far has demonstrated that support beyond the normal is required to help them meet their statutory functions. The second impact of the new Academies, specifically for the Pension Team, is that the employer base has increased which increases the overall management and monitoring of scheme employers.

Regular Updates

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

Employers' Guide

Guidance is issued electronically to assist the fund employers in discharging their pension's administration responsibilities. Officers are also available for advice.

This is supplemented by contacting a Specialist Senior Transactional Agent to non-Havering employers, available by telephone or personal visit to assist whenever necessary.

Internet

A microsite for employers is established on the Fund website. All manuals and Scheme literature is available on this site and is updated as required.

Site Meetings

Meetings with non-Havering Employers take place at their premises or at the council office, as required. Specifically this has been used as a mechanism for communicating major strategic issues, significant legislation changes and triennial valuation matters. "Yearend" meetings are held with Employers not on the council payroll.

SCHEME MEMBERS

Internet

Continue to review and develop the websites content, facilities and links of the Fund website, which contains Scheme details, fact sheets, forms, other literature and links to useful associated websites; and the Council

website, which contains a number of strategies and financial information for our members to view.

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 and Fund website www.yourpension.org.uk/handr

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

It is intended that scheme members will be informed of the annual report via a "Global news" item when it is available on both websites.

Newsletters

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

Benefits Statements

An Annual Benefit Statement is currently sent direct to the home address of all members who are contributing to the Fund at the previous financial year end. It is the intention to have these made available through Member Self Service when it is launched.

Benefit Statements are also sent direct to the home address of deferred members where requested to a home address where it 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 as well as being available on the funds website (as above).

Pay Advices

The Fund issues a pay advice to Scheme pensioners if their net pay varies by more than £5.00. An initial payslip, detailing the first pension payment, is sent to the home address. Further payslips will only be issued each April, May and October.

Additionally, Pension Increase letters are sent out annually and a P60 is issued annually by 31 May as per HMRC deadlines.

The authority operates Real time Information (RTI).

Correspondence

The fund utilises the oneSource service contact telephone number and email through Service Manager, together with surface mail and e-mail to receive and send correspondence in accordance with Audit advice and guidance.

Pension Roadshows

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 and recruitment days run by the Council to provide information to staff nearing retirement.

As well as being a valuable aid for pensioners and current scheme members, roadshows are used to target specific non-members.

PROSPECTIVE SCHEME MEMBERS

Scheme Booklet

All new prospective Scheme members will be provided with an electronic Scheme booklet at the time of their appointment to the London Borough of

Havering and directed to the Fund website.

Intranet

The Fund's Intranet area contains a link to the fund website at www.pension.org.uk/handr

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.

Corporate Induction Courses

Officers of the Council will attend corporate induction events in order to present the benefits of joining the LGPS to prospective scheme members.

One-to-One" surgeries

One-to-One surgeries or meetings are held when requested to take account of individual queries.

OFFICERS WORKING IN THE ONESOURCE (HAVERING) PENSION TEAM AND FUND MANAGEMENT

Service Management Teams

The Fund is managed by Corporate Strategic Finance Services and administered by oneSource whose Senior Officers report to the relevant Directors.

Team Meetings

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

Shared Area

Shared areas give all pension team staff access and contain such information as procedure manuals, core briefings,

LGPS circulars etc. This is an effective mechanism for ensuring that information is available to all staff at their work location in a timely manner. A database of links to all legislative circulars and bulletins is maintained to assist the team access information efficiently.

Induction

All new members of pension team staff undergo an induction procedure.

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.

Seminars

Pension Team officers regularly participate at seminars, conferences and specialised targeted training courses.

Pensions Team Leader

The Pensions Team Leader maintains an open-door policy and, within reason, is available to all staff on request. Skills and knowledge is kept up to date through participation at seminars, forums and conferences.

Pension Fund Accountant

The fund accountant responds to staff and other enquiries. Skills and knowledge is kept up to date through participation at seminars and conferences.

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 of Communities and Resources in rotation.

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.

CIPFA Benchmarking Club

The Council has decided to no longer participate in CIPFA but from 2015 will participate in Scheme Advisory Board benchmarking. This benchmarking will be mandatory from 2016 onwards.

Data Protection

To protect any personal information held on computer, the 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 necessary, 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.

The authority participates in the National fraud initiative.

Our Aspirations

The Communication strategy is designed to complement the service we offer, and ensure we are communicating effectively with our stakeholders.

We aim to:

- communicate in a friendly way using plain English as much as possible, and professional jargon only where necessary
- use various mediums as appropriate and as efficiently and as economically as possible
- ensure all information on the scheme and associated topics is succinct, relevant and up to date.

To offer “self-service” to update the scheme member individual records on the pension administration system. This will allow them to access their pension record using a password security system and to transact a significant proportion of their pensions business without having to enter into formal correspondence. Self-service is dependent upon upgrading the pension administration system.

Online ABS

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:
Pensions Team
oneSource
Central Library, 2nd Floor,
St Edwards Way
Romford
RM1 3AR

Tel: 01708 433333
Fax: 01708 432078
E-Mail: pensions@haverling.gov.uk,

Council’s website:
www.haverling.gov.uk/pages/services/pension-fund.aspx

Fund website:
www.yourpension.org.uk/handr

Direct dial telephone numbers are quoted on letters issued by the fund.



Havering
L O N D O N B O R O U G H

HYMANS  ROBERTSON

London Borough of Havering Pension Fund

Funding Strategy Statement
February 2014

Steven Law
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP

LONDON BOROUGH OF HAVERING PENSION FUND

HYMANS ROBERTSON LLP

Funding Strategy Statement

- 1 Introduction
- 2 Basic Funding issues
- 3 Calculating contributions for individual Employers
- 4 Funding strategy and links to investment strategy
- 5 Key Risks and Controls

Appendices

- Appendix A – Responsibilities of key parties
- Appendix B – Regulatory framework
- Appendix C – The calculation of Employer contributions
- Appendix D – Actuarial assumptions
- Appendix E – Key Risks and Controls
- Appendix F – Glossary

1 Introduction

1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2014.

1.2 What is the London Borough of Havering Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees and those employed in similar or related bodies across the whole of the UK. The Administering Authority runs the London Borough of Havering Fund, in effect the LGPS for the London Borough of Havering area, to make sure it:

- receives the proper amount of contributions from employees and employers and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives) and to their dependants (as and when members die) as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix A](#).

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded and how employers or pools of employers pay for their own

liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions;
- transparency of processes;
- stability of employers' contributions; and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in [Appendix B](#).

The FSS is a summary of the Fund's approach to funding its liabilities and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues.

The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policy on admissions;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current employee, former employee or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits with the other competing demands for council money; and a Council Tax payer: your council seeks to strike the balance above and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

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

1.6 How do I find my way around this document?

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. who is responsible for what;
- B. the regulatory background, including how and when the FSS is reviewed;
- C. some more details about the actuarial calculations required;
- D. the assumptions which the Fund actuary currently makes about the future; and
- E. what issues the Fund needs to monitor, and how it manages its risks;
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact Debbie Ford in the first instance at e-mail address Debbie.Ford@haverling.gov.uk or on telephone number 01708 432569.

2 Basic Funding issues

(More detailed and extensive descriptions are given in [Appendix C](#)).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the “*future service rate*”; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the “*past service adjustment*”. If there is a deficit the past service adjustment will be an increase in the employer’s total contribution; if there is a surplus there may be a reduction in the employer’s total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the “deficit recovery period”).

2.2 How is a deficit (or surplus) calculated?

An employer’s “funding level” is defined as the ratio of:

- the market value of the employer’s share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer’s employees and ex-employees (the “liabilities”). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer’s deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund’s actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in [Appendix D](#).

The Fund’s actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in [Section 3](#). It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund’s Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each

employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 31 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant and likely term of membership are also considered when setting contributions: more details are given in [Section 3](#).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies. In addition, the new academies and maintained schools are tendering for bought in services (e.g. catering) which will extend further the admitted bodies following the New Fair Deal (October 2013).

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over

whether to admit them to the Fund and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as foundation schools are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme. The New Fair Deal gives any council staff providing services under contract to certain maintained schools (including Foundation schools), who are TUPE'd to another contractor, the right to remain in the LGPS. This would be through an admission agreement.

Other employers are able to participate in the Fund via an admission agreement and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities while TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

The extension of TABs, particularly for low value contracts, can expose both the scheme employers and the other employers in the Fund to risk. The risk from Academies is partly offset by the Secretary of State guarantee.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- ☐ Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services and/or greater pressure on council tax levels;
- ☐ Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- ☐ Other employers will provide various services to the local community, perhaps through housing associations, charitable work or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- ☐ The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired or to their families after their death;

- The Fund must have the assets available to meet these retirement and death benefits which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result; and
- Council contributions to the Fund should be at a suitable level to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer. A risk assessment will take into account such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix B](#).

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range (“stabilisation”);
- the use of extended deficit recovery periods;
- the phasing in of contribution rises or reductions;
- the pooling of contributions amongst employers with similar characteristics; and/or
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, with advice from the actuary, adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than their underlying contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term; and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

to the different approaches used for different employers

| Type of employer | Scheduled Bodies | | | Community Admission Bodies and Designating Employers | | Transferee Admission Bodies | |
|--|--|---|--------------------------|--|---|---|---|
| Sub-type | Local Authority | Colleges | Academies | Open to new entrants | Closed to new entrants | Open to new entrants | Closed to new entrants |
| Basis used | On-going, assumes long-term Fund participation (see Appendix D) | | | On-going, but may move to “gilts basis” - see Note (a) | | On-going, assumes fixed contract term in the Fund (see Appendix D) | |
| Future service rate | Projected Unit Credit approach (see Appendix C – C.2) | | | | Attained Age approach (see Appendix C – C.2) | Projected Unit Credit approach (see Appendix C – C.2) | Attained Age approach (see Appendix C – C.2) |
| Stabilised rate? | Yes - see Note (b) | No | No | No | No | No | |
| Maximum deficit recovery period – Note (c) | 20 years | 20 years | 20 years | 15 years | 15 years | Outstanding contract term | |
| Deficit recovery payments – Note (d) | Monetary Amount or percentage of pay as appropriate | | | | | | |
| Treatment of surplus | Covered by stabilisation arrangement | Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority | | | | Reduce contributions by spreading the surplus over the remaining contract term | |
| Phasing of contribution changes | Covered by stabilisation arrangement | 3 years - Note (e) | | | | None | |
| Review of rates – Note (f) | Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations | | | | | Particularly reviewed in last 3 years of contract | |
| New employer | n/a | n/a | Note (g) | Note (h) | | Notes (h) & (i) | |

| | | | |
|---|---|--|---|
| Cessation of participation: cessation debt payable | Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j) . | Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j) . | Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on a basis appropriate to the circumstances of cessation – see Note (j) . |
|---|---|--|---|

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate or the employer is likely to lose its last active member within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set the employer's contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;

- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies) or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see [Section 4](#)) the Administering Authority has agreed a stabilisation mechanism with the Fund Actuary taking into account a number of factors.

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will be set as annual monetary amounts. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments as a percentage of pay instead, for instance where:

- there has been a significant increase in payroll due to auto-enrolment, or
- the employer has an increase in payroll due to significant transfers into their portion of the Fund.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, failure to pay contributions or to arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

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

- a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion; and
- d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion.
- e) Therefore, new academies may start with a deficit, depending on market conditions, which will be recovered over the same period as the council.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies and will be reflected in a subsequent version of this FSS. In particular, policies (c) and (d) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- ☐ the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- ☐ allowance for the risk of asset underperformance;

- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer and will be reassessed at least triennially.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(j\)](#).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. Clearly, as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor; subject to complying with the Administering Authority requirements regarding guarantees, indemnities or bonds to minimise the risk to the other employers in the Fund. In particular there are three different routes that such employers may wish to adopt (forms of ‘passthrough’ arrangements):

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- ☐ above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- ☐ redundancy and early retirement decisions

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- ☐ A TAB reaching the end of their contract;
- ☐ The last active member ceasing participation in the Fund;
- ☐ 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 an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other on-going employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) For a TAB reaching the natural end of their contract the cessation valuation will normally be calculated using the on-going basis as described in [Appendix D](#);
- b) For a TAB leaving the Fund prematurely (e.g. due to insolvency), the cessation valuation will normally be calculated using the “gilts cessation basis”, which is more prudent than the on-going basis. This has no allowance for potential future investment outperformance above gilt yields and has added allowance for future improvements in life expectancy;
- c) For non-TAB bodies, where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the on-going basis as described in [Appendix D](#);
- d) Alternatively for non-TAB bodies, it may be possible to simply transfer the former Admission Body’s liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due and this is within the terms of the guarantee;
- e) For non-TAB bodies, 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”, which is more prudent than the on-going basis. This has no allowance for potential future investment outperformance above gilt yields and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Any shortfall arising from an early termination of an agreement would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit and would carry out the cessation valuation on an on-going basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases as the Body would have no contributing members.

All TABs would have a cessation valuation carried out at the normal end of the contract period. Any sums due to the Fund to meet shortfalls at this time would require immediate payment. These sums may be subject to a ‘pass-through’ arrangement with the Scheme employer but may not be covered by a bond, indemnity or guarantee.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy. Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer’s contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to:

- ☐ a suitable bond;
- ☐ a legally-binding guarantee from an appropriate third party;
- ☐ tripartite admission agreement with the contractor or scheme employer in place of a guarantee; and
- ☐ security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- ☐ the extent of the employer’s deficit;
- ☐ the amount and quality of the security offered;
- ☐ the employer’s financial security and business plan; and
- ☐ whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.7 Ill health early retirement costs

Employers will usually have an 'ill health allowance'. The Fund monitors each employer's ill health experience on an on-going basis. If the cumulative cost of ill health retirement 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. Details will be included in each separate Admission Agreement.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged; and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage, premium terms or if the policy is ceased.

3.9 Employers with no remaining active members

In general, an employer ceasing in the Fund due to the departure of the last active member will pay a cessation debt on an appropriate basis (see [3.3](#), [Note \(j\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of following situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund; or
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written on-going commitment to fund

the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and/or
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years and continues to receive contribution and other income. All of this must be invested in a suitable manner which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see [D3](#)) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see [B1](#)).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see [3.3 Note \(b\)](#)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in [3.3 Note \(b\)](#), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, annually. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

5 Key Risk and Controls

The key types of risk specific to the FSS that have been identified are:

- Financial (including investment risk);
- Demographic;
- Regulatory; and
- Governance

The measures in place to control the key risks to the Fund are detailed in Appendix E.

Appendix A – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

A1 The Administering Authority should:-

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

A2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and

- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

A3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

A4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund; and
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix B – Regulatory framework

B1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- “to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;
- to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and
- to take a **prudent longer-term view** of funding those liabilities.”

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

B2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers on the 27th February for comment;
- b) Comments were requested by the 25th March 2014;
- c) Following the end of the consultation period the FSS was updated where required and then published, in March 2014.

B3 How is the FSS published?

The FSS is made available through the following routes:

- A copy sent by [post/e-mail] to each participating employer in the Fund;
- A copy sent to [employee/pensioner] representatives.
- A full copy is available on the Council's website. Our website follows the latest accessibility standards and meets, if not exceeds, the 'AA' (or 'AAA') standard of the Website Accessibility Initiative (WAI) Guidelines published by the World Wide Web Consortium (W3C). Text can be expanded in size and BrowseAloud is available to download.
- Copies sent to investment managers and independent advisers; and
- Copies made available on request.

B4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications;
- amendments affecting only one class of employer would be consulted with those employers; and/or
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the [Pensions Committee] and would be included in the relevant Committee Meeting minutes.

B5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund. These documents are available on request.

Appendix C – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience and these are described in detail in [Appendix D](#).

C1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “future service rate”; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a reduction in the employer’s contribution rate. If there is a deficit there will be an increase in the employer’s contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See [Section 3](#) for deficit recovery periods.

The Fund’s actuary is required by the regulations to report the *Common Contribution Rate*¹, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer². It is the adjusted contribution rate which employers are actually required to pay. The sorts of “peculiar” factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

C2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members’ **future** service in the Fund. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the “on-going” valuation basis (see [Appendix D](#)), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see [Section 3](#)).

¹ See LGPS (Administration) Regulations 36(5).

² See LGPS (Administration) Regulations 36(7).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

C3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency' is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see [C5](#) below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see [Appendix D](#). These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the on-going basis, unless otherwise determined (see [Section 3](#)).

C4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs.salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death; and/or
- the additional costs of any non ill-health retirements relative to any extra payments made; over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the on-going basis being exchanged between the two employers.

C5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix D – Actuarial assumptions

D1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

D2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “on-going basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see [Note \(a\)](#) to 3.3.

D3 What assumptions are made in the on-going basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current

investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to the retail prices index (RPI). This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at CPI plus 1.5% per annum (equivalent to RPI plus 1% per annum at the time).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the on-going valuation basis for future improvements in line with the CMI2010 “Peaked” projections with a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach is broadly neutral when considering the average number of years of life expectancy. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix E – Key risks and controls

E1 Financial risks

| Risk | Summary of Control Mechanisms |
|--|---|
| Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term. | <p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p> |
| Inappropriate long-term investment strategy. | <p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p> <p>Engage an independent investment advisor.</p> |
| Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities. | <p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p> |
| Active investment manager under-performance relative to benchmark. | <p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p> |

| Risk | Summary of Control Mechanisms |
|--|---|
| Pay and price inflation significantly more than anticipated. | <p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p> |
| Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies | An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions – please refer back to Section 3.1 . |
| Orphaned employers give rise to added costs for the Fund | <p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p> |
| Academy school ceases due to failure. | The Fund seeks a cessation valuation and makes a claim to the Secretary of State for Education under the Academies guarantee. |
| Admission Bodies failure. | The Fund will seek to have in place a bond/indemnity and/or 'pass-through' arrangement with scheme employer or a tripartite admission agreement. |

C3 Demographic risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Pensioners living longer, thus increasing cost to Fund. | <p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p> |

| Risk | Summary of Control Mechanisms |
|--|---|
| Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees. | Continue to monitor at each valuation, seek monetary amounts rather than % of pay and consider alternative investment strategies. |
| Deteriorating patterns of early retirements | <p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p> |
| Reductions in payroll causing insufficient deficit recovery payments | <p>In many cases this may not be sufficient cause for concern and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p> |

C4 Regulatory risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform. | <p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p> |

C5 Governance risks

| Risk | Summary of Control Mechanisms |
|--|---|
| <p>Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.</p> | <p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p> |
| Risk | Summary of Control Mechanisms |
| <p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</p> | <p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p> |
| <p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p> | <p>The Administering Authority requires employers sponsoring admitted bodies to inform it of forthcoming changes.</p> |
| <p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p> | <p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (i) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies</p> |

| Risk | Summary of Control Mechanisms |
|------|--|
| | <p>to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p> |

Appendix F – Glossary

| | |
|------------------------------------|--|
| Actual Contribution Rate | The contribution rate payable by each individual employer . For more details (see 3.3). |
| Actuarial assumptions/basis | The combined set of assumptions made by the actuary, regarding the future, to calculate the value of liabilities . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value. |
| Administering Authority | The council with statutory responsibility for running the Fund, in effect the Fund's "trustees". |
| Admission Bodies | Employers which voluntarily participate in the Fund, so that their employees and ex-employees are members . There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5). |
| Bond/Indemnity | <p>To cover early termination of a contract due to, but not limited to,</p> <ul style="list-style-type: none">• the funding strain arising from the early payment of liabilities that will arise as a consequence of redundancy if the Employer goes into liquidation, insolvency or winds up. Employees over age 55 are eligible for immediate payment of pension in the event of being made redundant;• any general funding shortfall, arising from variations between experience and assumptions used when determining the on-going Employer's contribution rate; and• a provision to cover the potential liability due to adverse market conditions over the period until the next actuarial valuation. <p>This bond does not cover any final cessation payments at the end of a contract.</p> |
| Closed to new entrants | Only existing LGPS members are covered by the admission agreement and hence are eligible to participate in the Fund (" <i>Closed Agreement</i> "). |
| Cessation Valuation | At the natural end of a contract or when the last active member of an Employer retires, a cessation valuation is carried out to determine the final contribution due from the Employer. The final contribution due may be subject to a 'pass-through' arrangement with the scheme employer. |
| Common contribution rate | The Fund-wide future service rate plus past service adjustment . It should be noted that this will differ from the actual contributions payable by individual employers . |
| Covenant | The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears |

that the employer may have difficulties meeting its pension obligations in full over the longer term.

| | |
|---------------------------------------|---|
| Deficit | The shortfall between the assets value and the liabilities value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions). |
| Deficit repair/recovery period | The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual past service adjustment (deficit repair contribution), and vice versa. |
| Designating Employer | Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund. |
| Discount rate | The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a liabilities value which is consistent with the present day value of the assets, to calculate the deficit . A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the future service rate and the common contribution rate . |
| Employer | An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and liabilities values for each employer are individually tracked, together with its future service rate at each valuation . |
| Funding level | The ratio of assets value to liabilities value: for further details (see 2.2). |
| Future service rate | The actuarially calculated cost of each year's build-up of pension by the current active members , excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of actuarial assumptions . |
| Gilt | A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency. |
| Guarantee / guarantor | A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's. This may be evidenced by a Combined Committee report, tripartite admission agreement or separate guarantee agreement subject to a financial review. |

| | |
|--------------------------------|---|
| Letting employer | An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy. The letting employer will meet the actuarial fees for setting contribution rates and any bond reviews. |
| Liabilities | The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit . It is calculated on a chosen set of actuarial assumptions . |
| LGPS | The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers. |
| Maturity | A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy. |
| Members | The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees). |
| Open to new entrants | New recruits as well as existing LGPS members are covered by the Admission agreement and hence are eligible to participate in the Fund ("Open Agreement"). |
| Pass-through | A risk sharing agreement between the letting employer and the contractor. Further details can be found in 3.3 Note (i) . |
| Past service adjustment | The part of the employer's annual contribution which relates to past service deficit repair. |
| Pooling | Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of deficit , or (if formally agreed) it may allow deficits to be passed from one employer to another. For further details of the Fund's current pooling policy (see |

[3.4\).](#)

| | |
|--|---|
| Profile | The profile of an employer's membership or liability reflects various measurements of that employer's members , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also. |
| Rates and Adjustments Certificate | A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed. |
| Scheduled Bodies | Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers). |
| Solvency | In a funding context, this usually refers to a 100% funding level , ie where the assets value equals the liabilities value. |
| Stabilisation | Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these. |
| Theoretical contribution rate | The employer's contribution rate, including both future service rate and past service adjustment , which would be calculated on the standard actuarial basis , before any allowance for stabilisation or other agreed adjustment. |
| Valuation | An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also. |



Havering
LONDON BOROUGH

STATEMENT OF INVESTMENT PRINCIPLES

NOVEMBER 2015

STATEMENT OF INVESTMENT PRINCIPLES

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

BACKGROUND

The Scheme

The Local Government Pension Scheme (LGPS) is a nationwide scheme and part of the pay and reward packages for employees working in local government or working for other employers participating in the 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.

The Scheme is a contributory, defined benefit occupational pension scheme and 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.

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 benefits of the Scheme are defined by statute. 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.

A new Career Average Revalued Earnings (CARE) Scheme was introduced from 1 April 2014. Pension builds up on a yearly basis equal to 1/49th of their actual pensionable pay in that year and is revalued in line with CPI (Consumer Price Index). For membership prior to 1st April 2014 pension is based on the best of the last three year's pensionable pay (whole time equivalent pay) and actual scheme membership (reckonable service).

Legislation

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and as amended in 2013 require Local Authority Pension Funds to prepare a Statement of Investment Principles (SIP) and to keep the statement under review and if necessary revised after any significant change in investment policy.

The Regulations set out that the SIP must cover:

- The types of investments to be held;
- The balance between different types of investments;
- Risk, including the ways in which risks are to be measured and managed;
- The expected return on investments;
- The realisation of investments;
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- The exercise of the rights (including voting rights) attaching to investments, if they have any such policy; and
- Stock lending.

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 and updated in 2012.

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 Fund's compliance with this voluntary code is summarised in the Appendix to this statement.

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 and reflects the political balance of the Authority. The Council and Employer representatives each have voting rights and Trade Unions have observer status. Scheduled and admitted bodies may appoint one representative who is entitled to attend the meetings of the Pensions Committee on their behalf.

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 objectives and 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, investment adviser and performance measurement provider. Additional meetings are held as required in particular to ensure the appropriate Councillor training.

Advice

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.

Investment Managers

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 Pensions Committee has 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.

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 Pensions Committee may decide to suspend rebalancing temporarily. The priority order for funding rebalancing is to first use surplus cash, followed by dividend and or interest income and lastly using sales of overweighed 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 claims 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 standards i.e. 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/from the Fund, 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 advice¹ 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 at the end of each financial year ending 31 March by external auditors.

PENSION FUND LIABILITIES**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.

The liabilities of the Pension Fund are the pensions due to be paid to current pensioners and their dependents, deferred members and the future benefits that will be paid to active members.

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 on-going basis set out in the formal report of the Fund's Actuary on the actuarial valuation carried out as at 31 March 2013.

At the last triennial valuation (at 31st March 2013) the funding ratio was 61%.

The Fund's asset performance is monitored quarterly by the Pensions Committee and the funding position is formally reviewed at each triennial actuarial valuation and in accordance with the Fund's Funding Strategy Statement the Actuary also carries out an inter-valuation update. This funding update is provided to illustrate the estimated development of the funding position 18 months from the date of the valuation.

The Administering Authority is obliged to prepare a Funding Strategy Statement (FSS), which is published on the Council's web site Pension Fund page [Havering Pension Fund](#). This outlines the method by which the Fund aims to return to an acceptable level of funding. This is expected to be

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

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 2012.

INVESTMENT STRATEGY

Investment Objectives

In framing investment strategy, it is recognised that the Committee has the long-term objective of being 100% funded on the current funding basis (i.e. with liabilities discounted at a rate of 1.8% p.a. in excess of gilt yields). The Committee is currently targeting to achieve this objective over the period to 2030.

The Committee wishes to pursue an investment strategy that retains at least a 60% chance of achieving this long-term objective. They have recognised that, over the ten year period from 31 March 2012, the required return from the Fund's assets to get "back on track" is around 6.5% p.a. more than the growth in the Fund's liabilities.

The Committee acknowledges this objective to be challenging and will therefore use this as a point of reference, rather than an explicit target. The Committee will monitor the development of the Fund's funding level to ensure the Fund remains on track and to identify any potential actions needed.

Based on advice from their Investment Adviser and a detailed review of strategy undertaken during 2012, the Committee has adopted a flexible investment strategy that reflects the following principles:

- *Growth:* The Committee recognises that a high allocation to "growth" assets/strategies is needed to achieve the long-term objective.
- *Control:* The Committee recognises that diversification can provide some protection against changing market conditions but that systemic risk cannot be diversified. The Committee therefore believes that greater dynamism within the investment strategy is desirable in order that the underlying strategy can be changed in response to changing market conditions.
- *Income:* The Committee recognises the emerging gap between income and benefit expenditure and hence the need to draw on investment income.

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.

Asset Allocation

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

| Asset class | Target allocation % |
|------------------------------|---------------------|
| UK/Global Equity | 25 |
| Multi Asset strategies | 35 |
| Absolute Return strategies | 15 |
| Property | 5 |
| Gilts/Investment grade bonds | 17 |
| Infrastructure | 3 |
| Total | 100 |

Equity allocations will be managed using a combination of active and passive strategies. All other allocations will be managed on an active basis. The multi asset strategies will be permitted to invest in a range of asset classes. However, it is not expected that the underlying asset allocation in these strategies will remain static over time.

The Committee has agreed to introduce an allocation to local infrastructure. The prospective investment is an amount of up to £15 million and based on 31 March 2013 levels would be rounded to

3%. Allocations to infrastructure will be introduced as opportunities are identified. Each opportunity will be funded through the payment of additional contributions to the Fund rather than by reallocating existing assets.

The underlying target return of this strategy over the next 10 years is at least the return on long dated index linked gilts plus 3.5% p.a., and allows for the expected returns from the asset classes plus a conservative allowance for performance for active manager skill.

The allocation of assets to each manager, their respective benchmarks and performance targets are as follows:

| Asset Class | Target allocation | Investment Manager/ product | Segregated / pooled | Active/ Passive | Benchmark and Target |
|-----------------------|-------------------|---|---------------------|-----------------|---|
| UK/Global Equity | 12.5% | Baillie Gifford (Global Alpha Fund) | Pooled | Active | MSCI All Countries Index plus 2.5% |
| | 6.25% | State Street Global Asset | Pooled | Passive | FTSE All World Equity Index |
| | 6.25% | State Street Global Asset | Pooled | Passive | FTSE RAFI All World 3000 Index |
| Multi Asset Strategy | 15% | Baillie Gifford (Diversified Growth Fund) | Pooled | Active | UK Base Rate plus 3.5% |
| | 20% | GMO Global Real return (UCITS) | Pooled | Active | OECD CPI g7 plus 3.5% |
| Absolute Return | 15% | Ruffer | Segregated | Active | LIBOR+ |
| Property | 5% | UBS | Pooled | Active | IPD All Balanced Property Funds Weighted Average Index |
| Gilt/Investment Bonds | 17% | Royal London | Segregated | Active | <ul style="list-style-type: none"> • 50% iBoxx £ non- Gilt over 10 years • 16.7% FTSE Actuaries UK gilt over 15 years • 33.3% FTSE Actuaries Index-linked over 5 years Plus 1.25%* |
| Infrastructure | 3% | State Street Global Assets – Sterling liquidity Fund Cash is invested pending identification of a local infrastructure project. | | | |

*0.75% prior to 1 November 2015

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

Fund managers are remunerated by an ad valorem scaled fee based on the market value at quarter end of the assets under management.

INVESTMENTS

Investments

The powers and duties of the Fund to invest monies are set out in the Local Government Pension Scheme (Management & Investment Funds) Regulations 2009. 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.

Realisation of investment

The majority of the Funds' investments are quoted and traded on major stock markets and may be realised relatively quickly if required. A proportion of the Funds' investments would take longer to realise, such as property but these represent no more than 5%.

Investment Management

The Investment Managers are each bound by either an Investment Management Agreement (IMA) or, in the case of investment in pooled funds, the relevant Fund Documentation 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 Conduct Authority (FCA), 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, where appropriate, or equivalent pooled fund rules.

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's ability to meet 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 at a rate faster than that assumed 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 2012, following the 2010 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: 80% in a mixture of equities, property and alternative assets/strategies with the remaining 20% 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 manageable 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.

The use of multi-asset and absolute return mandates recognises the expectation that risk will vary over time. By permitting the investment manager to not only invest in a diverse range of asset classes, but

to vary the underlying asset distribution as market conditions change, the Committee expects that the pattern of returns will be smoothed.

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 and making appropriate use of passive management, 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.

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.

Review

- The investment strategy is reviewed by the Pensions Committee, at least every three years following the actuarial valuation results or when changes are required.
- The current review is based on a full investment strategy review in 2012, the Actuarial Valuation 2013, a subsequent interim assessment of the valuation in 2014 and a review and on-going advice on asset allocation from the Fund's Investment Adviser.

SOCIAL ENVIRONMENTAL and ETHICAL CONSIDERATIONS

The Pensions Committee has carefully considered socially responsible investment in the context of its legal and fiduciary duties and obligations. In view of the objectives set out in this statement, the Pensions Committee takes the view that, non-financial factors should not drive the investment process to the detriment of the financial return of the Fund.

Whilst at this time the Pensions Committee has determined not to place any restrictions on Investment Managers for ethical, social and environmental reasons the Pensions Committee considers it appropriate for the Investment Managers to take such factors into account when considering particular investments.

The Pensions Committee also believes that it does not have the relevant expertise to make frequent assessment of the financial impact of companies' activities. To that extent, the Pensions Committee has a policy of non-interference and the Investment Managers have full discretion over 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 Managers, 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 Managers 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 Global Advisors.

State Street Global Advisors 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 stock lending from time to time.

Consultation and Publication

The Council has reviewed the Statement of Investment Principles in association with the Fund's 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 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 Fund's compliance with this Statement of Investment Principles.

The Action the Council has taken to meet the recommendations made in the Myner's report has been updated to November 2015 and is available as an appendix to this statement.

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Havering Position/Compliance</u> |
|--|---|---|
| 1. Effective decision-making Administering authorities should ensure that : (a) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and (b) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest | | SUMMARY: FULLY COMPLIANT A designated group of elected members, reflecting the political balance of the Council, have been appointed to a Pensions Committee who are responsible for pension fund functions, as specified in the Council's constitution (Part 2). Roles of the officers with responsibility for the day to day running of the administering authority's and the committee's business is specified in the Council's constitution (Part 3). Declarations of interests are considered at the start of each committee meeting. 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). The delegation process for the day to day running of the pension scheme is specified in the Council's constitution (Part 3). The Council's constitution is available via the Council's website: www.havering.gov.uk , follow links council, democracy and council, constitution of the council or select the link below. Havering - Library folder - Constitution Roles of members, officers, external advisors and managers are specified in the SIP. Where possible, appointments made to the committee are based on consideration of relevant skills, experience and continuity. |
| | 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. | |
| | 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. | |
| | 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. | |
| | 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. | |
| | 5) In describing the delegation process, roles of members, officers, external advisors and managers should be differentiated and specified. | |
| | 6) Where possible, appointments to the committee should be based on consideration of relevant skills, experience and continuity. | |

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Havering Position/Compliance</u> |
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| | <p>7) The committee should ensure that it has appropriate skills, and is run in a way designed to facilitate effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals. The adoption of a training plan and an annual update of training and development needs would represent good practice to demonstrate that the committee is actively managing the development of its members. A statement should appear in the annual report describing actions taken and progress made.</p> | <p>Structured training of elected members ensures that members are proficient in investment issues. The Council incorporates training within its forward looking business plan for the fund. Forward looking business plan is presented at the first Pensions Committee meeting of the financial year and reported in the Pension Fund Annual Report. Members agreed to completing the CIPFA's Knowledge and Skills self-assessment of training needs. The training plan incorporates the outcomes of the self-assessments. Following the establishment of a Local Pension Board (LPB) a joint training strategy will be developed that will incorporate training of Pension Committee members with LPB members, where appropriate.</p> |
| | <p>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.</p> | <p>Council recommends that the membership of the Pensions Committee remains static for the life of their term in office to facilitate knowledge continuity and helps to maintain 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.</p> |
| | <p>9) The committee may wish to establish subcommittees or panels to take responsibility for progressing significant areas of activity between meetings.</p> | <p>The Council does have a pension panel that exercises discretions within the LGPS and deals with the Internal Dispute Resolution Procedure regulations.</p> |
| | <p>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.</p> | <p>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 Deputy Chief Executive Communities and Resources and the Council's pension administration and payroll sections. Internal and external resources are considered as part of the business plan.</p> |

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Havering Position/Compliance</u> |
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| | 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 a publicly elected body. |
| | 13) Papers and related documentation should be clear and comprehensive, and circulated to members of the committee sufficiently in advance of the meeting. | Committee policy established and ensures that target dates for report clearance and agenda dispatch targets are met. Members receive agendas five working days prior to meeting date. |
| | 14) The 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. | The Pension Fund prepares, publishes and maintains a statement of compliance against a set of good practice principles. The statement shows the extent to which the administrating authority complies with the principles and is reviewed annually. |

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Havering Position/Compliance</u> |
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| | 18) Administrating authorities are required to publish a Governance Compliance Statement in accordance with CLG guidance. | The Governance Compliance Statement is included within the Annual Report and is available on the Council's website: www.havering.gov.uk (under Council, democracy and elections, council budgets and spending, then Pension Fund) or select the link to the pension's page below. Pension Fund page |
| | 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. |
| 2. Clear objectives | | SUMMARY: FULLY COMPLIANT |
| (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. | The committee should: | As part of the Valuation process consideration is given, with full consultation of the fund's actuary, to: 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; |
| | 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. | |
| | 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; value for money; and the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. |
| | 3) seek to include the achievement of value for money and efficiency in its objectives and all aspects of its operation | |
| | 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. | |

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Havering Position/Compliance</u> |
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| | | <p>The Fund's investment policies and objectives are laid out in the Funding Strategy Statement (FSS) and can be found on the Council's website, www.havering.gov.uk, council, democracy and elections, council budgets and spending, then pension fund or by selecting the link below.</p> <p>Pension Fund page</p> |
| | 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 administering authority's own procurement rules. | The Pensions Committee appoints external advisors in line with EU procurement rules and the administering 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. |
| | 7) also demonstrate that it has sought proper advice, including from specialist independent advisors, as to how this might be expressed in terms of the expected or required annual return on the fund and how it should be measured against stated benchmarks. | After full consultation with the Council's Actuary and Investment advisors a clear financial and therefore fully measurable investment objective for the fund has been set. |
| | 8) consider when it would be desirable to receive advice based on an asset/liability study and make appropriate arrangements. | The Pensions Committee commission the fund's investment advisor and actuary to undertake an asset/liability study as appropriate, when compiling the investment strategy |

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Havering Position/Compliance</u> |
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| | 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. | Transaction costs are 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. Costs are considered in the decision making process when any changes to the investment strategy are under discussion. |
| | 12) The use of peer group benchmarks should be for comparison purposes only and not to define the overall fund objective. | The committee uses the services of WM Performance Measurers for independent monitoring of performance against benchmarks. Peer group benchmark performance is used for comparison purposes only. |
| 3. Risk and liabilities | | SUMMARY: FULLY 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. |

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Hovering Position/Compliance</u> |
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| | 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. | The Fund has formulated its own asset allocation based on identified liabilities particular to the fund. The Fund's investment strategy was adopted having considered the members attitude to risks and are covered in the SIP and FSS. |
| | 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. | |
| | 6) state whether a scheme specific benchmark has been considered and established and what level of risk, both active and market risk, is acceptable to it. | Specific benchmarks are considered as part of any investment strategy review and monitored on an on-going basis. |
| | 7) receive a risk assessment in relation to the valuation of its liabilities and assets as part of the triennial valuations. Where there is reasonable doubt during performance monitoring of the fund about valuation of assets and liabilities the 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 considered as part of the triennial valuations and mid valuations, however cash flow is monitored monthly and reported to committee quarterly. |
| | 8) at the time of the triennial valuations, analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities. The committee should also ask this question of its actuaries and other advisors during discussions on performance. | |

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Havering Position/Compliance</u> |
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| | 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 <u>CFO</u> . | The external auditor's opinion is included in the Pension Fund Annual Report. Internal control audits for pensions are undertaken frequently by internal auditors and are reported to Audit Committee. Any identified issues would be reported to the Pensions Committee. Audited Internal Control reports are submitted by the Investment Managers and checked by officers for matters of concerns. |
| | 10) The fund's Statement of Investment Principles should include a description of the risk assessment framework used for potential and existing investments. | The Pension Fund's 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. |
| | 12) The Annual Report of the pension fund should include an overall risk assessment in relation to each of the fund's activities and factors expected to have an impact on the financial and reputational health of the fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of any residual risk. | The Pension Fund Annual Report includes an overall risk assessment in relation to each of the fund's activities and includes a copy of the Risk Register. This will be reported periodically to the Pensions Committee. |

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Havering Position/Compliance</u> |
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| 4. Performance assessment | | SUMMARY: FULLY COMPLIANT |
| a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors 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 | <u>Investments</u> | |
| | The committee should: | |
| | 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. | As part of any investment strategy review the Pension Fund considered and adopted its own asset allocation in full consultation with the Fund's investment advisor, it considered and has adopted active and passive management and appropriate targets and risk controls set. |
| | 2) explicitly consider, in consultation with its investment manager (s), whether the index benchmarks are appropriate, and in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies | Benchmarks are set in agreement with the fund's investment manager (s) |
| | 3) Where active management is selected, divergence from a benchmark should not be so constrained as to imply index tracking (i.e. passive management) or so wide as to imply unconstrained risk. | |
| | 4) Performance targets in relation to benchmark should be related to clear time periods and risk limits and monitoring arrangements should include reports on tracking errors. | Performance monitoring reports are presented to the committee quarterly and cover 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 other alternate quarters they meet with officers. Exceptions to this are the pooled managers and the absolute return manager who reports to officers and the committee once a year. |

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Hovering Position/Compliance</u> |
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| | 5) Although returns will be measured on a quarterly basis a longer time frame (three to seven years) should be used to assess the effectiveness of the fund management arrangements and review the continuing compatibility of the asset/liability profile. | The asset /liability profile is considered at each triennial valuation. |
| | 6) Investment activity in relation to benchmark should be monitored regularly to check divergence and any impact on overall asset allocation strategy. | In addition to officer reports, the investment advisor monitors and reports quarterly to the Pension Committee on performance, personnel, process and organisational issues of fund managers. The fundamental risk of the investment strategy not delivering the required – net of fee- return is measured quarterly in terms of the overall financial objective. |
| | 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. |
| | 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 as CIPFA/WM) may not be appropriate for directing a mandate of a manager insofar as they infer a common asset liability structure or investment requirement. Such benchmarks can be used for comparative information. | WM performance returns against peer group benchmarks are used for comparison purposes only. |

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Havering Position/Compliance</u> |
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| | 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. |
| | <u>Advisors</u> 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. | |
| | 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 | |
| | <u>Decision-making bodies</u> 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 |

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Havering Position/Compliance</u> |
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| | 17) the objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved. | requirements including attendance at all training sessions. |
| | 18) The committee should set out its expectations of its own performance in its business plan. This could include progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to administration of the committee's business such as: | The Business Plan sets out the expectations of the committee. |
| | 19) attainment of standards set down in CIPFA's knowledge and skills framework and code of practice; achievement of required training outcomes; achievement of administrative targets such as dates for issuing agendas and minutes. | Achievements of training outcomes are self-assessed by the Pensions Committee. Targets such as dates for issuing agendas and minutes are strictly adhered to. Achievements of administrative targets are reported in the Pension Fund Annual report. |
| | 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 |
| 5. Responsible ownership | | SUMMARY: PARTIALLY COMPLIANT |
| Administrating authorities should: | | |
| a) recognise, and ensure that their partners in the investment chain adopt, the FRC's UK Stewardship Code | 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 managers to consider, as |

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Havering Position/Compliance</u> |
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| | 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. | part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. |
| | 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. |
| | 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. Fund Managers report voting activity 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 engage with, and consider the implications of, the UK Stewardship Code on a comply or explain basis | The Committee has in the past accepted the principles laid down in the Institutional Shareholders Statement of Responsibilities and the policy is set out in the current version of the SIP. The UK Stewardship Code which has superseded this will need to be considered by the committee. |
| | 9) The committee should also ensure that external partners in the investment chain (advisors, consultants, investment managers, etc.) adopt the UK Stewardship Code insofar as it relates to their activities on behalf of the fund. | The UK Stewardship Code is directed to institutional investors (asset owners and asset managers with equity holdings in UK listed companies) and should apply on a comply-or-explain basis. Currently all of the funds asset managers and service providers have adopted the code. |

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Havering Position/Compliance</u> |
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| | 10) The United Nations Environment Programme Finance Initiative (UNEP FI) has published Principles for Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the six principles and regularly assess themselves against a comply or explain framework. | The UNPRI is voluntary and applies on a comply or explain basis. All but two of the fund's asset managers have adopted the code. One of these managers is in the advanced stage of completing the documentation and the other manager is actively considering joining in 2016. |
| 6. Transparency and reporting | | SUMMARY: FULLY COMPLIANT |
| Administrating authorities should: | The committee 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 | 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. |
| b) provide regular communication to scheme members in the form they consider most appropriate. | 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. 3) build an integrated approach to its own governance and to communicating this and all other aspects of its work to its stakeholders. | 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. The work of the Pensions Committee is publicly available on the Council's 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. How the work is communicated to its stakeholders is included in the fund's Communication Strategy, select link below to see the pensions page on the councils website. Pension Fund page |

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Havering Position/Compliance</u> |
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| | 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. |
| | 5) compare regularly its annual report to the regulations setting out the required content and, if the report does not fully comply with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible. | The Pension Fund Annual Report is prepared in accordance with Regulation 57 of the LGPS Regulations 2013 which applied from 1 April 2014. It is also prepared in accordance with guidance published by CIPFA/PRAG in August 2014. |
| | 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, or select the link below. This page also includes the Pension Fund's Communication Strategy .Where applicable reference to all these documents is made in other publications. Pension Fund page |
| | With regard to the FSS and SIP, they should: 7) contain delegation process and the roles of officers, members, external advisors and managers should be differentiated. The process by which the overall fund allocation process has been determined and include reference to assumptions as to future investment returns; mandates given to managers should describe fees structures, scale of charges, whether ad valorem or fixed, performance element built in, stating the implications for risk control; copies should be made available and its availability made clear in publications. | The policies shows the delegation process and the roles of officers, members, external advisors and how managers are differentiated; the process by which the fund allocation has been determined and includes references to assumptions on future returns; mandates given to each manager are described, including fees; and implications for risk control. |

| <u>Principle</u> | <u>Best Practice Guidance (CIPFA)</u> | <u>Havering Position/Compliance</u> |
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| | With regard to the Governance Compliance Statement it must include: | |
| | 8) information on whether administering authority delegates, the whole or part function; if it does delegate must state frequency of meetings, terms of reference, structure and operational procedures. It must also include whether the committee includes representatives of employing authorities and if so, whether they have voting rights. | The Governance Compliance Statement includes information on the administering authorities delegation process and functions delegated to the Pensions Committee. It also includes the frequency of meetings, terms of reference, structure and operational procedures. |
| | 9) details of the extent to which it complies with CLG guidance. Where the statement does not comply, reasons must be given. A copy of the statement must be sent to the CLG. | The Governance Compliance Statement also includes a table which shows the extent of compliance with 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 administering authorities' policy on provision of information and publicity about the scheme, it also includes the format, frequency and method of distribution of such information. |

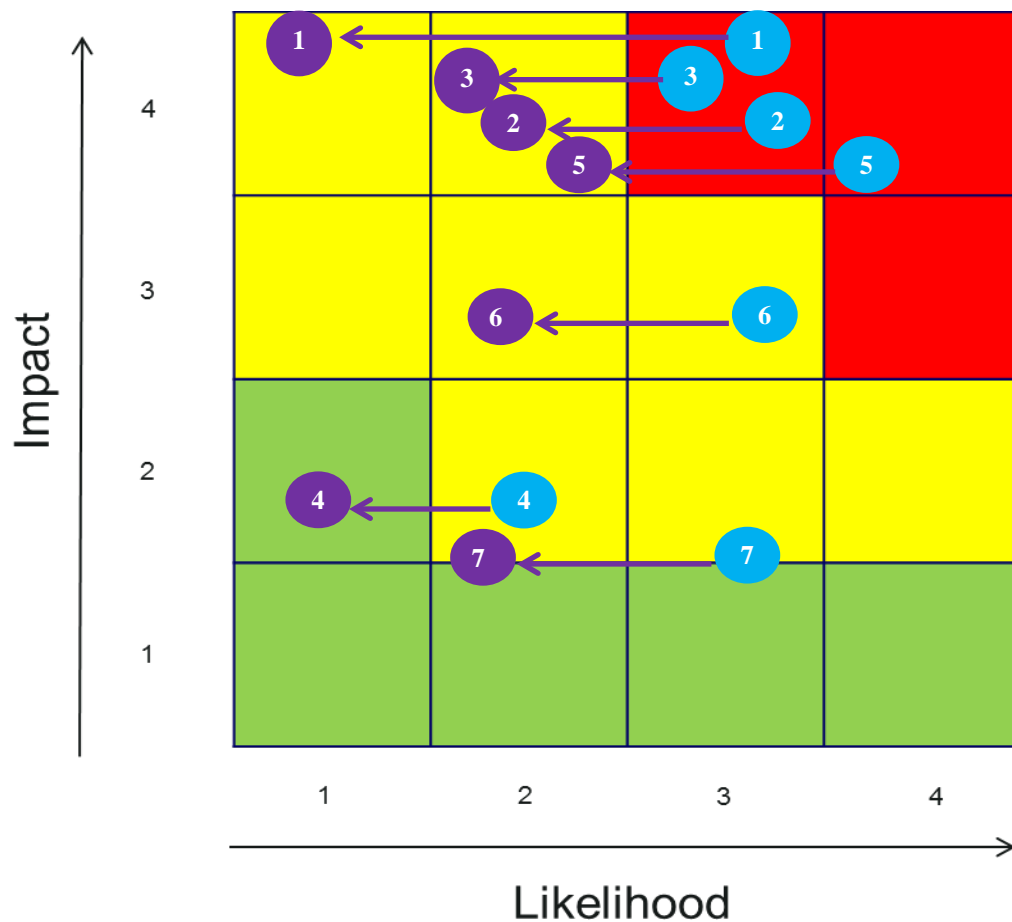
London Borough of Havering

Pension Risk Register

JUNE 2015

Inherent and Residual Risk Score Matrix

Inherent and Residual Risk Score Matrix



| Ref | Risk Title |
|-----|--|
| 1 | Inaccurate three yearly actuarial valuation |
| 2 | Incorrect / Inappropriate Investment Strategy |
| 3 | Failure of investments to perform in-line with growth expectations |
| 4 | Failure to comply with legislative requirements |
| 5 | Inability to manage/ govern the Pension Fund and associated services |
| 6 | Failure to effectively "sign up" new employers / members |
| 7 | Pension Fund Payment Fraud |

 Inherent Risk Score
  Residual Risk Score

Definitions:

Inherent Risk Score: The inherent risk score is the assessment of a risk in terms of impact and likelihood, without consideration of the mitigations in place.

Residual Risk Score: This is the assessment of the risk, at the current point in time, having considered the mitigations in place.

| Pension Fund Risk Register | | | | | | |
|----------------------------|---|--|--------------------------------|--|--------------------------------|---------------------------------|
| Ref | Risk Title | Cause & Effect | Inherent Score | Mitigations & Action to take forward | Residual Score | Risk Owner |
| 1 | Inaccurate three yearly actuarial valuation | <p>Causes:</p> <ul style="list-style-type: none"> ▪ Inappropriate assumptions used by actuary in calculations for valuation ▪ Poor quality data provided from LB of Havering ▪ Personal data not maintained to a high standard (gaps/incorrect) ▪ Actuary's own assumptions are not robust or reflective <p>Effects:</p> <ul style="list-style-type: none"> ▪ Deficit position worsens ▪ Employers pay/ continue to pay incorrect contribution percentages ▪ Increase in employer contributions ▪ Potential for Council Tax increases ▪ More investment risk may be | Impact 4 Likelihood 3 | <p>Mitigations in place:</p> <ul style="list-style-type: none"> ▪ Robust, open tender process in place for appointment of actuary ▪ Valuation completed by a qualified professional actuary ▪ Some assumptions for valuation dictated by statute ▪ Actuarial assumptions are challenged by officers ▪ Valuation assumptions subject to External Audit review ▪ Local Government benchmarking/comparisons of assumptions ▪ Annual review of actuary performance undertaken by Pensions Committee <p>Actions to take forward:</p> <p>None identified at this point.</p> | Impact 4 Likelihood 1 | Director of Finance (oneSource) |

| Pension Fund Risk Register | | | | | | |
|----------------------------|--|---|--|--|--|--|
| Ref | Risk Title | Cause & Effect | Inherent Score | Mitigations & Action to take forward | Residual Score | Risk Owner |
| | | <p>taken to bridge a gap that doesn't actually exist</p> <ul style="list-style-type: none"> Potential for a more risk averse Investment Strategy when more risk is required. | | | | |
| 2 | Incorrect / Inappropriate Investment Strategy | <p>Causes:</p> <ul style="list-style-type: none"> Lack or poor professional investment advice given Investment advice is not taken Lack of understanding and awareness (Pension Committee) Lack of clear risk appetite Based upon inaccurate actuarial valuation <p>Effects:</p> <ul style="list-style-type: none"> Pension deficit not reduced Potential for financial loss Growth opportunities are not maximised | <p>Impact 4 Likelihood 3</p> | <p>Mitigations in place:</p> <ul style="list-style-type: none"> Robust, open tender process in place for appointment of Investment Advisor Investment Advisor performance is annually reviewed by the Pensions Committee Close working relationship is encouraged between actuaries and investment advisor in the development of the investment strategy Investment strategy continually assessed as part of the quarterly monitoring process by the Pensions Committee | <p>Impact 4 Likelihood 2</p> | Director of Finance (oneSource) |

| Pension Fund Risk Register | | | | | | |
|----------------------------|------------|---|----------------|--|----------------|------------|
| Ref | Risk Title | Cause & Effect | Inherent Score | Mitigations & Action to take forward | Residual Score | Risk Owner |
| | | <ul style="list-style-type: none"> ▪ Could generate inefficiencies and unintended risks if not fully understood. ▪ More investment risk may be taken to bridge a gap that doesn't actually exist ▪ Potential for a more risk averse Investment Strategy when more risk is required. ▪ Potential for Council Tax increases | | <ul style="list-style-type: none"> ▪ Liabilities analysed during inter-valuation period <p>Actions to take forward:</p> <ul style="list-style-type: none"> ▪ Pensions Committee Training / Awareness - working towards full compliance with CIPFA Knowledge and Skills framework ▪ Consider using a further independent advisor for challenge to investment advice | | |

Pension Fund Risk Register

| Ref | Risk Title | Cause & Effect | Inherent Score | Mitigations & Action to take forward | Residual Score | Risk Owner |
|-----|--|--|---|--|---|---------------------------------|
| 3 | Failure of investments to perform in-line with growth expectations | <p>Causes:</p> <ul style="list-style-type: none"> ▪ Poor Fund Manager selection ▪ Underperformance by fund manager ▪ Poor investment advice provided to LB of Havering or not taken ▪ Negative financial market impacts ▪ External factors / increased market volatility (i.e. 2008) ▪ Delays in the implementation of the strategy will reduce the effectiveness of the strategy and may impact growth <p>Effects:</p> <ul style="list-style-type: none"> ▪ Deficit reduction targets are not met ▪ Potential for losses to be incurred ▪ Increased employer contributions | <p>Impact 4</p> <p>Likelihood 3</p> | <p>Mitigations in place:</p> <ul style="list-style-type: none"> ▪ Robust, Fund Manager selection process ▪ Diverse portfolio to reduce negative effects from market volatility ▪ Quarterly monitoring of fund performance and asset class split is presented by the Fund's Investment Advisor at Pension Committee. ▪ Fund performance and asset class split is reviewed quarterly by investment advisor/Pensions Committee and officers. ▪ Fund Managers attend Pension Committee and officer meetings to present quarterly performance reports <p>Actions to take forward:</p> <ul style="list-style-type: none"> ▪ Pensions Committee | <p>Impact 4</p> <p>Likelihood 2</p> | Director of Finance (oneSource) |

Pension Fund Risk Register

| Ref | Risk Title | Cause & Effect | Inherent Score | Mitigations & Action to take forward | Residual Score | Risk Owner |
|-----|---|---|--|--|--|--|
| | | | | Training/Awareness – working towards full compliance with CIPFA Knowledge and Skills framework | | |
| 4 | Failure to comply with legislative requirements | <p>Causes:</p> <ul style="list-style-type: none"> ▪ Lack of appropriate skills/knowledge to fulfil requirements ▪ Unaware of legislative changes ▪ Development of key person dependency ▪ Poor/inaccurate interpretation of the regulations ▪ Failure/inability to administer the pension scheme appropriately. <p>Effects:</p> <ul style="list-style-type: none"> ▪ Reputational damage ▪ Potential for financial penalties ▪ Potential for costly legal challenges ▪ Increase in employer contributions, | <p>Impact 2 Likelihood 2</p> | <p>Mitigations in place:</p> <ul style="list-style-type: none"> ▪ Financial requirements are subject to external and internal audit ▪ Experienced personnel in place ▪ Legislative changes are reported to the Pensions Committee where required ▪ Active participation in Legislative Consultations where appropriate ▪ External and in house training provided where required ▪ Member of the CIPFA Pensions Network ▪ Participate in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness ▪ Statutory policy documents | <p>Impact 2 Likelihood 1</p> | <p>Director of Finance (oneSource)</p> <p>And</p> <p>Director of Exchequer & Transactional Services (oneSource)</p> |

Pension Fund Risk Register

| Ref | Risk Title | Cause & Effect | Inherent Score | Mitigations & Action to take forward | Residual Score | Risk Owner |
|-----|------------|--------------------------------|----------------|--|----------------|------------|
| | | delayed due to non-compliance. | | <p>reviewed annually to ensure compliance with legislation</p> <ul style="list-style-type: none"> Access to specialist pension media sources <p>Actions to take forward:</p> <p>None identified at this point.</p> | | |

Pension Fund Risk Register

| Ref | Risk Title | Cause & Effect | Inherent Score | Mitigations & Action to take forward | Residual Score | Risk Owner |
|-----|---|---|---|---|---|---|
| 5 | Inability to manage/govern the Pension Fund and associated services | <p>Causes:</p> <ul style="list-style-type: none"> ▪ Ineffective / lack of succession planning ▪ Loss of corporate knowledge/expertise ▪ Long term sickness absence ▪ Increase in staff turnover ▪ Lack of knowledge sharing protocols ▪ No knowledge base to store experiences/information ▪ Lack of resource (Staffing/financial) ▪ ICT failure ▪ Poor pension fund administration ▪ Poor monitoring of employer financial status ▪ Inappropriate investment accounting <p>Effects:</p> <ul style="list-style-type: none"> ▪ Negative impacts upon service | <p>Impact 4</p> <p>Likelihood 4</p> | <p>Mitigations in place:</p> <ul style="list-style-type: none"> • Bond or guarantee reviews in place and reviewed every three years as part of valuation process • Procedure manual in place for Pension Administration • Attendance at local forum meetings • Attendance at Annual Pension Managers conference • Members of Local Authority Pensions Web • Participates in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness • Attendance at accounting seminars/training • Guidance from external agencies (some will be at a cost) • Pension Fund uses the service of an external custodian to verify | <p>Impact 4</p> <p>Likelihood 2</p> | <p>Director of Finance (oneSource)</p> <p>And</p> <p>Director of Exchequer & Transactional Services (oneSource)</p> |

Pension Fund Risk Register

| Ref | Risk Title | Cause & Effect | Inherent Score | Mitigations & Action to take forward | Residual Score | Risk Owner |
|-----|------------|--|----------------|--|----------------|------------|
| | | provision <ul style="list-style-type: none"> ▪ Time delays ▪ Potential for breach of legislation ▪ Financial penalties/ other sanctions ▪ Reputational Damage ▪ Increased costs due to "buying in" external expertise ▪ Employer defaults ▪ Qualified opinion on the accounts by external auditor | | asset values and performance <ul style="list-style-type: none"> • Pension Fund accounts subject to external audit. • Continuous pension training • ICT Disaster Recovery in place Actions to take forward: <ul style="list-style-type: none"> • Succession planning required for key personnel • Review / update procedure manuals • Option being assessed for joint administration with Newham to build resilience • Introduce employer covenants checks • Strengthen process for Bond Reviews • Development of workflow/process management • Development of Training Matrix • Establishment of a statutory Local | | |

Pension Fund Risk Register

| Ref | Risk Title | Cause & Effect | Inherent Score | Mitigations & Action to take forward | Residual Score | Risk Owner |
|-----|---|---|---|---|---|--|
| | | | | Pension Board to assist the administering authority in effective and efficient governance of the Havering pension Fund | | |
| 6 | Failure to effectively "sign -up" new employers / members | <p>Causes:</p> <ul style="list-style-type: none"> ▪ Delays in internal processing of documentation ▪ Poor communications with stakeholders ▪ Lack of understanding by employers with regard to their responsibilities ▪ Lack of signed agreements from Employers <p>Effects:</p> <ul style="list-style-type: none"> ▪ Delays in collection of contribution from the employers/members ▪ Impacts cash flow ▪ Potential for litigation ▪ Employer contribution assessment | <p>Impact 3</p> <p>Likelihood 3</p> | <p>Mitigations in place:</p> <ul style="list-style-type: none"> • Escalation to Heads of Service • Script in place to deliver to new Academy employers, with feedback process in place (minuted) • Database maintained on all contact details for LGPS communications. • Monthly schedules of data submitted to Pensions Administration Team • Electronic file of required documents forwarded to new employers <p>Actions to take forward:</p> <ul style="list-style-type: none"> • Review of internal processes | <p>Impact 3</p> <p>Likelihood 2</p> | Director of Exchequer & Transactional Services (oneSource) |

Pension Fund Risk Register

| Ref | Risk Title | Cause & Effect | Inherent Score | Mitigations & Action to take forward | Residual Score | Risk Owner |
|-----|----------------------------|---|--|---|--|--|
| | | <p>can become out of date</p> <ul style="list-style-type: none"> Potential breach of regulations Incorrect records of new members External Audit Opinion on internal controls Employers liabilities may fall back onto other employers and ultimately local taxpayers. | | <p>(particularly legal input)</p> <ul style="list-style-type: none"> Completion of TUPE Process Manual Completion of Admission Policy manual Template admission agreement awaiting legal clearance | | |
| 7 | Pension Fund Payment Fraud | <p>Causes:</p> <ul style="list-style-type: none"> Pension overpayments arising as a result of non-notification in change of circumstances Internal staff fraud Staff acting outside of their levels of authorisation <p>Effects:</p> <ul style="list-style-type: none"> Financial loss Reputational damage of Pension Administration team and Council Litigation / investigation Internal disciplinary | <p>Impact 2 Likelihood 3</p> | <p>Mitigations in place:</p> <ul style="list-style-type: none"> Participate in the National Fraud Initiative (bi-annually) Process is in place to investigate return of payment by banks. All pension calculations are peer checked and signed off by senior officer Segregation of duties within the Pensions Administration Team Segregation of duties between Payroll and Pensions Administration Team | <p>Impact 2 Likelihood 2</p> | Director of Exchequer & Transactional Services (oneSource) |

Pension Fund Risk Register

| Ref | Risk Title | Cause & Effect | Inherent Score | Mitigations & Action to take forward | Residual Score | Risk Owner |
|-----|------------|----------------|----------------|--|----------------|------------|
| | | | | <ul style="list-style-type: none"> 100% address check undertaken for deferred pensions <p>Actions to take forward:</p> <ul style="list-style-type: none"> Consider implementation of a monthly mortality check Investigating usage of external agencies (i.e. Western Union) (for overseas payments) | | |