Haringey Council

NOTICE OF MEETING

PENSIONS COMMITTEE

TUESDAY 29 JANUARY 2008 at 19:00 HRS
CIVIC CENTRE, HIGH ROAD WOOD GREEEN N22

IMPORTANT NOTE: THERE WILL BE A PRE-MEETING AT 18:30 FOR ALL TRUSTEES IN COMMITTEE ROOM FOUR

MEMBERS: Councillors Rahman Khan (Chair), Mallett (Vice-Chair), Adje, Beacham, Basu, Butcher, Wilson and Aitken

IN ATTENDANCE: Howard Jones (Adviser to Trustees), and Roger Melling (Designated Union representative)

AGENDA

1. APOLOGIES FOR ABSENCE

2. URGENT BUSINESS:
The Chair will consider the admission of any late reports, related to any items for consideration under those agenda items. Any new items of urgent business will be considered under Agenda Item 8.

3. DECLARATIONS OF INTERESTS:
A member with a personal interest in a matter who attends a meeting of the authority at which the matter is considered must disclose to that meeting the existence and nature of that interest at the commencement of that consideration, or when the interest becomes apparent.

A member with a personal interest in a matter also has a prejudicial interest in that matter if the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice the member's judgment of the public interest **and** if this interest affects their financial position or the financial position of a person or body as described in paragraph 8 of the Code of Conduct **and/or** if it relates to the determining of any approval, consent, license, permission or registration in relation to them or any person or body described in paragraph 8 of the Code of Conduct.

4. MINUTES: (PAGES 1 - 4)
To confirm and sign the minutes of the meeting of the Pensions Committees held on 4 December 2007.

5. **TRIENNIAL ACTUARIAL VALUATION RESULTS AS AT 31 MARCH 2007 AND APPROVAL OF REVISED FUNDING STRATEGY STATEMENT: (PAGES 5 - 48)**
Report of the Chief Financial Officer to:

(i) report the results of the triennial actuarial valuation as at 31 March 2007
(ii) to report the revised Funding Strategy Statement (FSS) for approval.

6. **GOVERNANCE: (PAGES 49 - 90)**
Joint report of the Chief Financial Officer and the Assistant Chief Executive, People, Organisational and Development to consider a review of our governance arrangements and the requirement to publish a Governance Compliance Statement by 1 March 2008.

7. **TENDERING OF THE ACTUARIAL AND INVESTMENT ADVICE CONTRACTS - PROGRESS REPORT: (PAGES 91 - 94)**
Report of the Chief Financial Officer to report progress made in tendering the investment advice and actuarial advice contracts and to seek approval for a further extension of the current contract with Hymans Robertson.

8. **ITEMS OF NEW URGENT BUSINESS:**
To consider any new items of urgent business admitted under Agenda Item 2 above.

9. **DATE OF NEXT MEETING:**
13 March 2008, 7:00pm, Civic Centre.

10. **EXCLUSION OF THE PUBLIC AND PRESS:**
The following items are likely to be the subject of a motion to exclude the press and public as they contain exempt information relating to the business or financial affairs of any particular person (including the Authority holding that information).

Note from the Head of Local Democracy and Member Services: The following items allow for consideration of exempt information (if required) in relation to Item 7 which appears earlier on this agenda.

11. **TENDERING OF THE ACTUARIAL AND INVESTMENT ADVICE CONTRACTS - PROGRESS REPORT: (PAGES 95 - 96)**
Report of the Chief Financial Officer to report progress made in tendering the investment advice and actuarial advice contracts and to seek approval for a further extension of the current contract with Hymans Robertson.

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18 January 2008

MINUTES OF THE PENSIONS COMMITTEE
TUESDAY, 4 DECEMBER 2007

Councillors	Rahman Khan (Chair), Mallett (Vice-Chair), Adje, Butcher and Wilson
Apologies	Councillors Beacham and Basu

MINUTE NO.	SUBJECT/DECISION	ACTION BY
PRPP20.	**APOLOGIES FOR ABSENCE** Apologies for absence were received from Councillors Beacham and Basu.	
PRPP21.	**URGENT BUSINESS:** There was no urgent business.	
PRPP22.	**DECLARATIONS OF INTERESTS:** Councillor Rahman Khan declared a personal interest in respect of his membership of the Haringey Pension Scheme. He also declared a personal interest in respect of his attendance at a training course facilitated by the Local Government Employees. Councillor Mallett declared a personal interest in respect of her membership of the Haringey Pension Scheme. She also declared a personal interest in respect of her attendance at a training course facilitated by pension fund managers. Councillor Wilson declared a personal interest in respect of his employment at the Association of British Insurers.	
PRPP23.	**MINUTES:** The unrestricted minutes of the meeting held on 10 September were agreed and signed by the Chair. The minutes of the meeting held on 25 October were agreed and signed by the Chair subject to the following amendments: To add at beginning of minute: “ Also present at meeting: Roger Melling and Howard Jones”.	
PRPP24.	**LAPFF PRESENTATION - BENEFITS OF MEMBERSHIP:** Keith Bary of the Local Authority Pension Fund Forum (LAPFF) gave a presentation to the Committee outlining the background to LAPFF and its work in respect of shareholder activism. Mr Bray also outlined the structure of LAPFF and the benefits of membership to improved effectiveness, and value for money and summed up his presentation by	

stating that LAPFF enabled its members to act together, to achieve more.

The Committee put a number of questions to Mr Bary in respect of quantifying the benefits of membership and justifying the cost of joining the forum. Mr Bary explained that membership of LAPFF had numerous benefits but that quantifying membership was difficult save to say that the costs could be met by savings in not having to pay for advise and research directly from fund managers.

The Chair thanked Mr Bary for his presentation.

PRPP25. **LAPFF MEMBERSHIP:**

The Chair varied the order of the agenda to take item 7 at this stage of proceedings.

Gerald Almeroth, Chief Finance Officer, outlined the main benefits of joining LAPFF which went someway towards redressing the shortfall on engagement activity and was a useful tool in sharing ideas with other local authorities. Mr Almeroth also informed the Committee that the cost of membership to LAPFF was modest and therefore value for money. The Committee was advised that a one-year membership was only fractionally more expensive than signing up for three years and would also allow for a review after the first year's membership.

RESOLVED

(i) That the Committee agree to join LAPFF for a one-year period
(ii) That the Committee agree to review membership of LAPFF after one year.

PRPP26. **ATTENDANCE OF FUND MANAGERS:**

Fund Managers from Capital and Bernstein addressed the Committee, being given 15 minutes each for presentations and then for taking questions from Members.

CAPITAL
Fund performance for the global equities mandate was +.44% against the benchmark, and +.07% against target in the quarter to 30 September 2007. Fund performance for the fixed income bonds mandate was -.00% and -1.23% against target.

Capital explained reasons for current performance and answered questions from trustees.

Capital informed the Committee that reporting on the UN Principles and Sri would feature in its subsequent updates.

BERNSTEIN
Fund performance for the UK mandate was -1.26% against the

	benchmark, and -1.76% against target in the quarter to 30 September 2007. Fund performance for the Global mandate was -2.71% against the benchmark, and -3.46% against the target. Bernstein explained reasons for current performance and answered questions from trustees. Bernstein informed the Committee was it was confident in its SRI. **FIDELITY** There was no attendance from Fidelity who were expected to attend. **RESOLVED** That it be noted that the fund managers who attended, in their deliberations gave assurances in exercising their best professional care and expertise, and in accordance with SRI in managing the Haringey Council Pension Fund.	
PRPP27.	**FUND PERFORMANCE UPDATE:** The Committee was given an update on the latest performance data for the Pension Fund and for each of the Fund's investment managers and was informed that the combined Haringey fund had increased in absolute terms by 3.73% to 30 September 2007; under performed the gross benchmark by .30%; and under performed the gross target by 1.12%. The Committee was also briefly advised of the prospect for the next quarter in respect of market performance. The Committee was also asked to consider a half-day trustee training evening in January 2008 and was given details of a three-day training session organised by Local Government Employees. **RESOLVED** (i) That the Fund Performance position as at end of September 2007 be noted (ii) That the budget monitoring position to end of October 2007 (period 7) be noted. (iii) That a half-day trustee training session be arranged by liaison between the Committee Secretary and the Head of Finance-Budgeting, Projects and Treasury.	
PRPP28.	**FUND ADMINISTRATION UPDATE:** The Committee considered the regulatory changes affecting the administration of the Local Government Pension Scheme together with relevant issues covered in circulars issued by the Local government Pensions Committee and Communities and Local Government. The Committee was informed of the likely impact upon the Council's Pension Fund including affects on early retirement funds, and the need to communicate any new changes to retirees.	

	The Chair requested that the Pensions staff note the Statement of Compliance as outlined in the report before the Committee. **RESOLVED** That the administration update be noted.	
PRPP29.	**ANY UNRESTRICTED ITEMS OF URGENT BUSINESS:** None.	
PRPP30.	**DATES OF FUTURE MEETINGS:** **RESOLVED** That the following dates be noted: • 29 January 2008, 7pm, Civic Centre (this is a rescheduled date) • 13 March 2008, 7pm, Civic Cntre	
PRPP31.	**EXCLUSION OF PUBLIC AND PRESS:** **RESOLVED** That the press and public be excluded.	
PRPP32.	**EXEMPT MINUTES:** **RESOLVED** That the exempt minutes of 10 September 2007 be agreed and signed by the Chair.	
PRPP33.	**ANY EXEMPT ITEMS OF URGENT BUSINESS:** None. *The meeting finished at 9:20pm*	

Councillor Gmmh RAHMAN KHAN
Chair, Pensions Committee 2007/8

Date:

Agenda Item 5

Haringey Council

Pensions Committee **On 29 January 2008**

Report title: Triennial actuarial valuation and revised Funding Strategy Statement
Report of: Chief Financial Officer

Ward(s) affected: All	**Report for: Decision**

1. Purpose

1.1 To report the results of the triennial actuarial valuation as at 31 March 2007.

1.2 To report the revised Funding Strategy Statement (FSS) for approval.

2. Recommendations

2.1 That the results of the triennial actuarial valuation as at 31 March 2007 be noted.

2.2 That the revised Funding Strategy Statement be approved.

G. Almeroth

Report authorised by: Gerald Almeroth – Chief Financial Officer

Contact officer: John Hardy, Head of Finance-Budgeting, Projects & Treasury
(tel no: 020 8489 3726)

3. Executive Summary

3.1 This report sets out the results of the triennial actuarial valuation as at 31 March 2007 for noting and our revised Funding Strategy Statement for approval.

3.2 The level of funding has increased from 69 per cent as at 31 March 2004 to 77.7 per cent as at 31 March 2007.

3.3 Following the 2007 valuation, the Actuary has agreed that the Council's contribution rate can prudently remain at the 2007/08 rate of 22.9 per cent.

3.4 The Actuary will issue the required report on the triennial valuation shortly and the required rates and adjustments certificate for each admitted, scheduled body and for the Council in March 2008.

3.5 It was deemed to be the right time to revise our Funding Strategy Statement (FSS). We received advice from our Actuary and have also shared the revised Statement with Admitted Bodies, Scheduled Bodies and the Independent Advisor to Trustees for any comments.

4. Reasons for any change in policy or for new policy development (if applicable)

No changes are proposed.

5. Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

Report of Actuary as at 31 March 2007.

Current Funding Strategy Statement (FSS).

6. Background

6.1 The Fund is independently valued every three years by a firm of actuaries to assess the adequacy of the Fund's investments and contributions to meet its liabilities. This report considers the latest formal valuation that took place as at 31 March 2007.

7. Actuarial valuation

7.1 This actuarial review was carried out in accordance with Guidelines GN9: Retirement Benefits Schemes – Actuarial reports published by the Institute of Actuaries and the Faculty of Actuaries. Economic and statistical assumptions were used. The resulting contribution rates reflect the cost of providing year-by-year accrual of benefits for the Fund's members and the level of funding for each employer's past-service liabilities.

7.2 The funding level of the Pensions Fund at the 2004 valuation was 69 per cent and this has increased to 77.7 per cent as at the 2007 valuation (31 March 2007). The latter compares with an interim actuarial funding level of 79.8 per cent (based upon the 2004 valuation data) that was reported to Pensions Committee on 25 June 2007. The Haringey Council part of the fund has a funding level of 75 per cent as at 31 March 2007.

7.3 Following the 2007 valuation, the Actuary has agreed that the Council's contribution rate can prudently remain at the 2007/08 rate of 22.9 per cent.

7.4 The above contribution rate has been allowed for in the budget. The Financial Planning report is being considered by Cabinet on 22 January 2008.

7.5 The Actuary is present at this meeting to go through his main valuation findings as included in Appendix One.

7.6 The valuation takes into account implementation of the aspects of the 'new look' scheme due to come into effect from April 2008.

7.7 The increase in funding level from 69 per cent as at 31 March 2004 to 77.7 per cent as at 31 March 2007 is due to an improvement in investment earnings and value, and the planned stepped increases in employers contributions from 2004.

7.8 More specifically the change in funding level is largely explained on the good side by better than anticipated investment returns of 13.1% per annum (that is 6.3% per annum more than the discount rate). This adds around 14% to the funding level. Additional employer contributions made towards the past service deficit have contributed around 4% to the funding level improvement. This is offset by a fall in real gilt yields from 1.8% per annum to 1.3% per annum, changes in anticipated inflation, long term interest rates and demographic assumptions, reducing the funding level by 9%. An additional mortality reserve reduces the funding level by around 3%. Finally other items over the three year period adds around 3% to the funding level.

7.9 The Actuary has undertaken numerous validation checks of the data supplied to ensure that the calculations made are accurate. A good process was followed with data being provided to the Actuary on time and with not many errors.

7.10 In arriving at the results of the actuarial valuation, our funding strategy for 2007 is in line with that used for the 2004 valuation, namely;

- an assumption that the assets of the fund will outperform Government bonds by 1.6% per annum;
- the use of a 20 year deficit recovery period over which the past service deficit will be funded;
- the use of a 50% take up rate for commutation in line with government assumptions;
- some further increases in pensioner longevity.

7.11 The Actuary will issue the Fund's required report on the triennial valuation shortly. The rates and adjustments certificate for each admitted and scheduled body and for the Council will be issued in March 2008.

Key comparative data is as follows:

Valuation date	**2004**	**2007**
	£m	**£m**
Past service liabilities (whole fund)		
Employees	242.8	354.7
Deferred pensioners	101.8	153.6
Pensioners	242.9	289.9
Total liabilities	**587.4**	**798.2**
Assets	405.3	620.0
Surplus/(deficit)	**(182.1)**	**(178.1)**
Funding level	**69%**	**77.7%**
Contribution rates (Council only)		
Future service rate	12.8%	14.0%
Past service rate	10.1%	8.9%
Common contribution rate	**22.9%**	**22.9%**

7.12 A consultation meeting took place with admitted and scheduled bodies this afternoon (29 January 2008). In advance of this meeting detailed results were sent to each body by the Actuary. This meeting was chaired by the Chair of Pensions Committee. Any comments will be reported verbally at this meeting of the Committee.

8. Funding Strategy Statement

8.1 It was deemed to be the right time to revise our Funding Strategy Statement (FSS). We received advice from our Actuary and have also shared the revised Statement with Admitted Bodies, Scheduled Bodies and the Independent Advisor to Trustees for any comments.

8.2 The FSS has been updated by having regard to our own Statement of Investment Principles (SIP) and guidance published by CIPFA on preparing and maintaining a funding strategy statement. Our proposed revised FSS is shown in Appendix Two.

8.3 The main changes made are as follows:

- Page 4 of the FSS - an additional objective of the Fund's funding policy has been added, namely 'to maintain the affordability of the Fund to employers as far as is reasonable over the longer term.'

- Page 6 of the FSS - ongoing funding basis – we have expanded the FSS to include 'The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experiences of LGPS funds advised by the Fund Actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Allowance has been made for improvements in line with PMA/PFA92 series projections up to calendar year 2017 for non-pensioners and 2033 for pensioners with age ratings applied to fit past LGPS experience. Employers are aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions.

  The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers.'

- Page 19 of the FSS – demographic risks – we have added an additional risk re the possibility of ill health retirements being significantly more than anticipated. Our control mechanism is 'Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumptions built in.'

- Page 22 of the FSS (Annex A) – employers' contributions, spreading and phasing periods will be added once the Actuary supplies the certificate in March 2008.

8.4 The revised FSS, if agreed, will become effective from 31 March 2008 to link in with receipt of the required certificate of contribution rates for each admitted and scheduled body and for the Council.

9. Comments of the Head of Legal Services

9.1 The Head of Legal Services has been consulted on the content of this report. Regulation 77 of the Local Government Pension Scheme Regulations 1997 (as amended) provides that an administering authority must obtain an actuarial valuation of the assets and liabilities of their pension fund at intervals of three years commencing 31 March 1998. The valuation must be accompanied by a report of the actuary and a rates and adjustments certificate.

9.2 Regulation 76A of the 1997 Regulations requires each administering authority to prepare, maintain and publish a written statement setting out their funding strategy. The first such statement is to have been published on or before 31 March 2005 and shall be revised and published by the authority following any material change in their policy on the matters set out in the statement. In preparing and maintaining the statement, the Authority must have regard to its own statement of investment principles and the guidance published by CIPFA on preparing and maintaining a funding strategy statement.

APPENDIX ONE

HYMANS ROBERTSON

London Borough of Haringey Pension Fund

2007 Valuation Results

- Bryan T Chalmers FFA
- Steven Law
- 29 January 2008

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Agenda

1. Basics of valuation
2. 2004 valuation results
3. Intervaluation experience
4. Results

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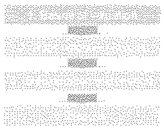
Purpose of triennial funding valuation



- Meet regulatory requirements
- Ensure "solvency" of the fund
- Determine rate at which employers will contribute over following 3 years

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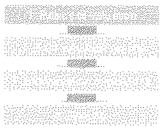
What is the pension fund?



- Defined benefit scheme
  - Member contributions fixed (for now!)
- Funded scheme
  - Assets built up to meet future benefit payments
- Future costs are uncertain

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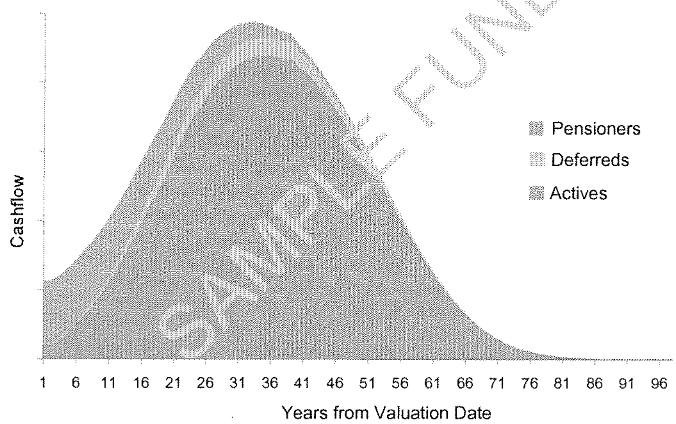
What is the pension fund?

Future Cash Flows (Past Service)



Source: Hymans Robertson LLP , sample client

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Where were we?

2004 past service position

Assets £405m | Deficit £182m

Liabilities £587m

funding level : 69% whole fund

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2004 contribution requirement

	% of pay
Total cost of benefits	18.8%
Less: employee contributions	*6.0%*
Employer share of future service	12.8%
Plus: Adjustment for past service position	*10.1%*
Common Contribution Rate	22.9%

Deficit recovered over 20 years

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Stability at expense of margins

	Common Contribution Rate at 31/03/04 % of pay	
2004 basis (1.6% AOA)		22.9%
Lower assumed asset out-performance on:		
Future service	2.1%	
Past service	2.1%	
		4.2%
Shorter deficit recovery		0.0%
2001 basis (1.25% AOA)		27.1%

No allowance for longevity improvements in 2004

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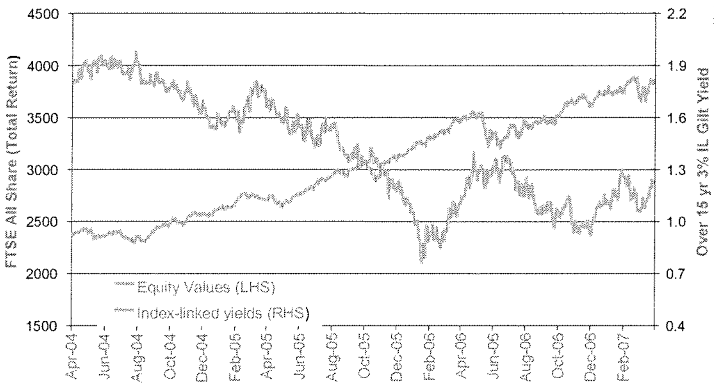
Market conditions

Equity Returns and Gilt Yields



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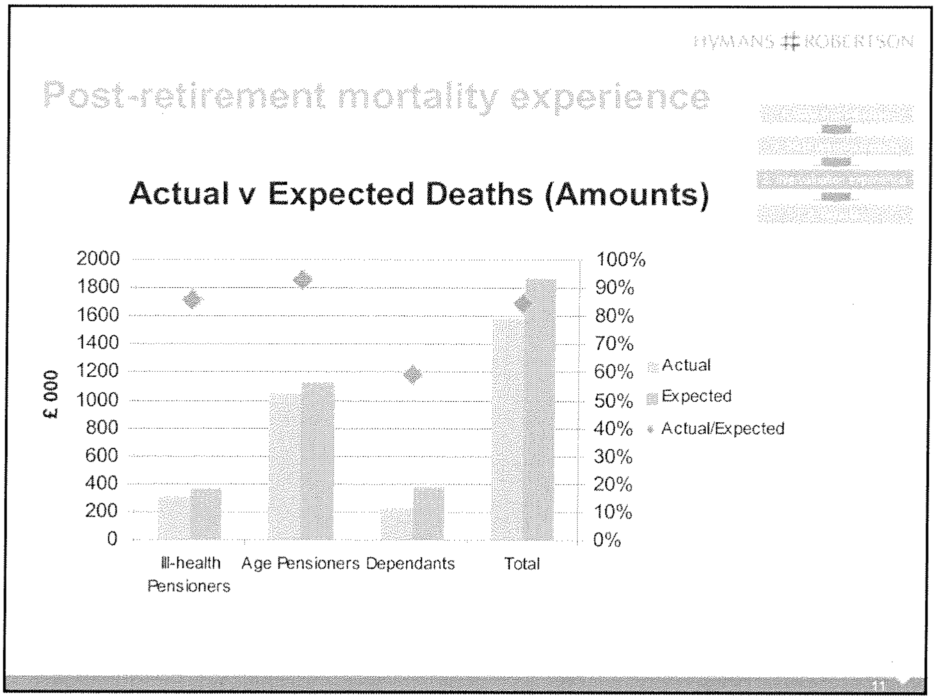
Benefit changes

- Principal changes (affecting valuation):
  - Rule of 85 re-introduced from April 2005
  - Commutation introduced from April 2006
  - Rule of 85 removed
    - for new entrants from October 2006
    - for existing members from 1 April 2008 (with protections)
- 2008 new scheme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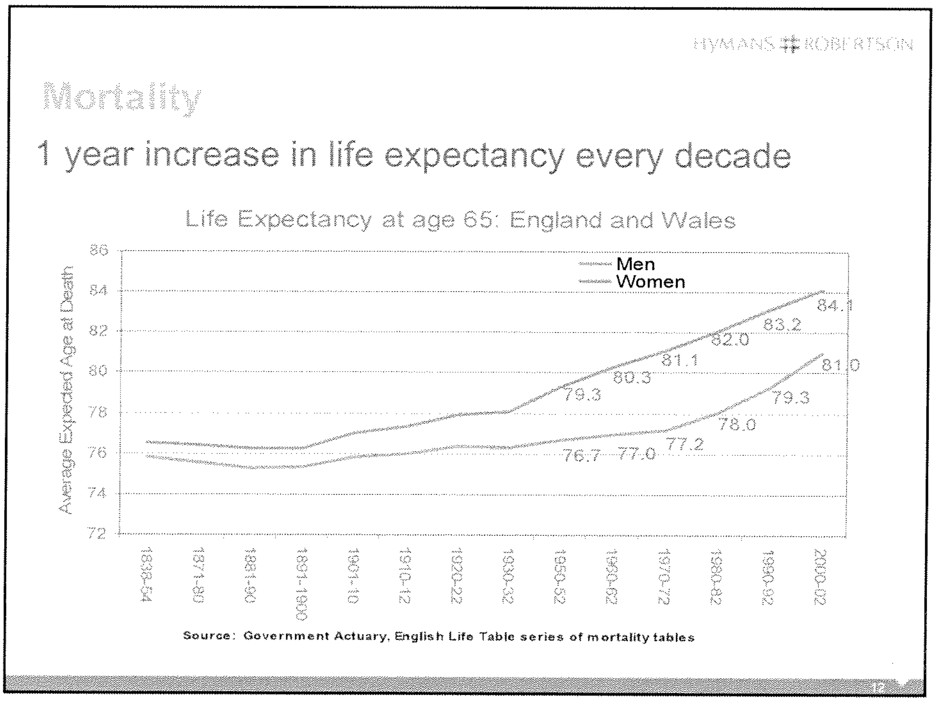
Post-retirement mortality experience
Actual v Expected Deaths (Amounts)
£ 000
2000
1800
1600
1400
1200
1000
800
600
400
200
0
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Actual
Expected
Actual/Expected
Ill-health Pensioners
Age Pensioners
Dependants
Total
11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Mortality
1 year increase in life expectancy every decade
Life Expectancy at age 65: England and Wales
Average Expected Age at Death
86
84
82
80
78
76
74
72
Men
Women
84.1
83.2
82.0
81.1
80.3
79.3
81.0
79.3
78.0
77.2
77.0
76.7
1838-54
1871-80
1881-90
1891-1900
1901-10
1910-12
1920-22
1930-32
1950-52
1960-62
1970-72
1980-82
1990-92
2000-02
Source: Government Actuary, English Life Table series of mortality tables
12

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Results – Funding Level
Whole Fund

Valuation date	2004	2007
Past service liabilities	£m	£m
Employees	243	355
Deferred pensioners	102	154
Pensioners	243	290
Total liabilities	587	798
Assets	405	620
Surplus/(Deficit)	(182)	(178)
Funding Level	69%	78%

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Results – Funding Level
Haringey Council

Valuation date	2004	2007
Past service liabilities	£m	£m
Employees	223	273
Deferred pensioners	100	147
Pensioners	238	279
Total liabilities	562	699
Assets	385	521
Surplus/(Deficit)	(177)	(178)
Funding Level	69%	75%

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Results – Contribution rates
Whole Fund

Valuation date	2004	2007
Future Service costs	% of pay	% of pay
Total cost	18.3%	20.6%
Employee conts	6.0%	6.7%
Expenses	0.5%	0.5%
Net employer share	12.8%	14.4%
Past service adj (20 yrs)	10.1%	7.2%
Common contribution rate	22.9%	21.5%

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Results – Contribution rates
Haringey Council

Valuation date	2004	2007
Future Service costs	% of pay	% of pay
Total cost	18.2%	20.3%
Employee conts	6.0%	6.7%
Expenses	0.5%	0.5%
Net employer share	12.7%	14.1%
Past service adj (20 yrs)	10.2%	8.8%
Council contribution rate	22.9%	22.9%

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Next steps

- Agree contribution rates and phasing
- Keep ill-health budgets under review
- Keep mortality experience under review
- Keep funding positions under review

…Valuation report signed off by 31 March 2008.

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Future pressures

- Need to rebuild margins
- Future longevity improvements
- Benefit changes?

Still upward pressure on contribution rates

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Any questions?

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Appendices

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Effect of market conditions

- Asset returns
  - Investment returns
    - 13.1% p.a.
    - 6.3% p.a. more than discount rate of 6.3% p.a. (20% in total)
- Liabilities
  - Real gilt yields
    - 1.8% p.a. to 1.3% p.a.
    - Liabilities up by c.12% (no change in strategy)

Overall – improvement in FL

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Benefit changes

- Principal changes (affecting valuation):
  - Rule of 85 re-introduced from April 2005
  - Commutation introduced from April 2006
  - Rule of 85 removed
    - for new entrants from October 2006
    - for existing members from 1 April 2008 (with protections)
- Civil partnerships
- Anti-age discrimination changes
- Tax simplification

New scheme from 2008

- 1/60th member's pension, all cash by commutation
- 1/160th partners' pensions
- Two tier ill-health (3rd tier outside the scheme?)
- New DIS / IH service enhancements
- Higher lump sums on death
- Seven tier employee contributions
- Cost sharing to be considered in future

higher cost for existing members due to recycling

Commutation experience

- Analysis:
  - compare 3/80ths with new HMRC limit
  - all HR advised LGPS funds
  - number of members and weighted by pension amounts
- Initial experience analysis (FRS17)
  - 25% of members (amounts weighted)
- Assumed 50%
  - In line with GAD/ CLG assumptions
- Updated experience analysis
  - 15% of members (amounts weighted)

commutation reduces cost of existing scheme

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Demographic assumptions

- No change in approach since 2004:
  - "best estimate" based on LGPS experience
- Refined to allow for 2001-04 experience
  - Fewer early leavers
  - Fewer ill-health early retirements
  - Commutation at 50%
- Specific consideration of future mortality improvements (no allowance in 2004)

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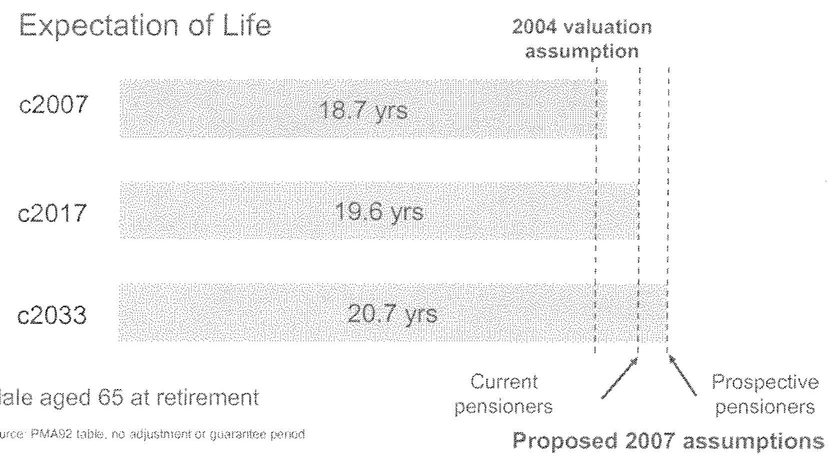
2007 Proposals



Male aged 65 at retirement

Source: PMA92 table, no adjustment or guarantee period

Observed pop'n improvements: 1 yr increase every 10

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Pre-retirement experience

	Actual	Assumed
Early leavers	2,146	2,285
Ill health retirements	60	132
Salary increases *	4.9%	5.0%
Pension increases	3.1%	2.9%
Average age	50.1	49.1

* In respect of pre-98 full-time employees

Overall : reduction in funding level

APPENDIX TWO

1. Introduction

This is the Funding Strategy Statement (FSS) of the Haringey Council Pension Fund ("the Fund"), that is administered by Haringey Council, ("the Administering Authority").

It has been revised 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. This revised version replaces the previous FSS and is effective from 31 March 2008.

1.1 Regulatory Framework

Scheme members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level that covers only part of the cost of accruing benefits. Employers currently pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers, or pools of employers, pay for their own liabilities.

The FSS forms part of a framework that includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

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

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2011. More frequently, Annex A is updated to reflect any changes to employers.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact John Hardy in the first instance at john.hardy@haringey.gov.uk or on 020-8489-3726.

2. Purpose

2.1 Purpose of FSS

The **The Department for Communities and Local Government (CLG)** 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.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.3 Aims of the Funding Policy

The objectives of the Fund's funding policy include the following:

- to ensure the long-term solvency of the Fund (and of the share of the Fund notionally allocated to individual employers);

- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;

- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;

- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations;

- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and

- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

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 (or "solvency") of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

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. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years of all the employers' scheme members.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

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

Annex A contains a breakdown of each employer's contributions following the 2007 valuation for the financial years 2008/09, 2009/10 and 2010/11. It includes a reconciliation of each employer's rate with the *Common Contribution Rate*. It also identifies which employers' contributions have been pooled with others.

[1] See Regulation 77(4)
[2] See Regulation 77(6)

Any costs of early retirements other than on the grounds of ill-health must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should agree with the Administering Authority before making one-off capital payments.

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

'Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

The Fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experiences of LGPS funds advised by the Fund Actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Allowance has been made for improvements in line with PMA/PFA92 series projections up to calendar year 2017 for non-pensioners and 2033 for pensioners with age ratings applied to fit past LGPS experience. Employers are aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from from the Fund's assets in excess of gilts or even match the return on gilts. There is, however, no guarantee that assets 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.

In light of the statutory requirement for the Actuary to consider the stability of employer contributions, it is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2007 valuation, it is assumed that the Fund's investments will deliver an average real additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. Based on the asset allocation of the Fund as at 31 March 2007, this is equivalent to taking credit for excess returns on equities of 2% p.a. over and above the gross redemptions yield on index-linked gilts on the valuation date and for excess returns of 0.4% p.a. on the non-equity assets

The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole.

The approach used to calculate the 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 that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* with a one year control period.

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.

3.4.2 Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the *Attained Age* funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the Actuary's report on the valuation.

Both future service rates will include an allowance for expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, part-time/full-time, manual/non manual);
- the effect of any changes to the valuation basis from the one used in the previous valuation, 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;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between the 2004 and 2007 valuations and each subsequent triennial valuation period.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation, including, but not limited to:

- the actual timing of employer contributions within any financial year; and
- 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.

3.6 Asset Share Calculations for Individual Employers

The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole Fund between the employers (or pool of employers) at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer or pool of employers. 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 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 but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below unless otherwise agreed by the Administering Authority and the Fund's actuary.

Type of Employer	***Maximum* Length of Deficit Recovery Period**
Statutory bodies with tax raising powers	A period to be agreed with each employer not exceeding 20 years
Community Admission Bodies with funding guarantees	A period to be agreed with each employer subject to a maximum of the future working lifetime.
Best Value Admission Bodies	The period from the start of the revised contributions to the end of the employer's contract.
Community Admission Bodies that are closed to new entrants e.g. Bus Companies, whose admission agreements continue after last active member retires	A period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers, subject to not less than 9 years.
All other types of employer	A period equivalent to the expected future working lifetime of the remaining scheme members

This *maximum* period (unless otherwise agreed by the Administering Authority and the Fund's actuary) is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2008 for 2007 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, to improve the stability of contributions.

3.7.2 *Surplus Spreading Periods*

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above (unless otherwise agreed by the Administering Authority and the Fund's actuary) for deficits in calculating their **minimum** contributions.

However, to help meet the stability requirement, employers may prefer not to take such reductions.

3.7.3 *Phasing in of Contribution Rises*

Best Value Admission Bodies are not eligible for phasing in of contribution rises. Other employers may opt to phase in contribution rises as follows:

- for employers contributing at or above its future service rate in 2007/08, phasing in the rise in employer contributions over a period of three years;
- for employers contributing at less than its future service rate in 2007/08, phasing in the rise in contribution rises over a period of three years.

3.7.4 *Phasing in of Contribution Reductions*

Any contribution reductions will be phased in over three years for all employers except Transferee Admission Bodies who can take the reduction with immediate effect.

3.7.5 *The Effect of Opting for Longer Spreading or Phasing-In*

Employers which are permitted and elect to use a longer deficit spreading period than was used at the 2004 valuation, or to phase-in contribution changes, will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit

3.7.6 Pooled Contributions

The Administering Authority allows Haringey Council to pool the legacy liabilities and assets that remain when an employer leaves the Fund. Otherwise, the Administering Authority does not permit the pooling of contribution rates.

3.8 Admission Bodies ceasing

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.

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

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

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

(b) For non-Transferee Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.

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

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

3.9 Early Retirement Costs

3.9.1 Non Ill Health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. All employers, irrespective of whether or not they are pooled, are required to pay additional contributions wherever an employee retires "early" (see below) with no reduction to their benefit or receives an enhanced pension on retirement..

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

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

3.9.2 Ill health monitoring

The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative number 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 applies for non ill-health cases.

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2004, the proportion held in equities and property was 75.4% of the total Fund assets.

The investment strategy of lowest risk would be one which provides cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Equity investment would not be consistent with this.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from a liability matching strategy.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

4.2 Consistency with Funding Basis

The funding policy currently adopts an asset outperformance assumption of 1.6% p.a. over and above the redemption yield on index-linked gilts. The Fund's investment strategy is detailed in our SIP. The Fund's Actuary considers that the funding basis does conform to the requirements to take a "prudent longer-term" approach to funding.

The Administering Authority is aware that, in the short term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in equities brings the possibility of considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of the out-performance target. The stability measures described in Section 3 will dampen 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.

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

4.4 Inter-valuation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of annual interim valuations. If appropriate, investigations will also be made into the individual employer funding positions.

5. Key Risks & Controls

5.1 Types of Risk

The Administering Authority's has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

5.2 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	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress at three yearly valuations for all employers.* *Annual interim valuations.*
Inappropriate long-term investment strategy	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.*
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	*Inter-valuation monitoring, as above.* *Some investment in bonds helps to mitigate this risk.*
Active investment manager under-performance relative to benchmark	*Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark and target.*
Pay and price inflation significantly more than anticipated	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.*

	Inter-valuation monitoring, as above, gives early warning. *Some investment in index linked bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.*
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	*Seek feedback from employers on scope to absorb short-term contribution rises.* *Mitigate impact through deficit spreading and phasing in of contribution rises.*

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Ill-health retirements significantly more than anticipated.	Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumptions built in.
Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.*
Deteriorating patterns of early retirements	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.* *Employer ill health retirement experience is monitored.*

5.4 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.* *The Administering Authority considers all consultation papers issued by the CLG and comments where appropriate.* *The Administering Authority will consult employers where it considers that it is appropriate.*
Changes to national pension requirements and/or HM Revenue and Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006, abolition of 85 year rule and new 2008 scheme	

5.5 Governance

<table>
<tr><th>Risk</th><th>Summary of Control Mechanisms</th></tr>
<tr><td>Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).</td><td rowspan="2">The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations

Deficit contributions are expressed as monetary amounts and percentages (see Annex A).</td></tr>
<tr><td>Administering Authority not advised of an employer closing to new entrants.</td></tr>
<tr><td>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.</td><td>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.

It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.</td></tr>
</table>

An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: • *Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.* • *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* • *Vetting prospective employers before admission.* • *Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.*

Annex A – Employers' Contributions, Spreading and Phasing Periods

Following the 2007 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2007 valuation report are based on the deficit recovery periods and phasing periods shown in the table below. The table also shows the individual adjustments under Regulation 77(6) to each employer's contributions from the 'Common Contribution Rate'.

Annex B – Responsibilities of Key Parties

The Administering Authority should:-

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain a FSS and SIP, both after proper consultation with interested parties; and
- monitor all aspects of the fund's performance and funding and amend FSS/SIP
- prepare annual accounts and get these audited, control cash flow and administration costs

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;
- 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, excess ill-health early retirements if appropriate; and
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:-

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

Haringey Council

Agenda item:

Pensions Committee **On 29 January 2008**

Report Title: **Governance arrangements and Governance Compliance Statement**	
Report of: Chief Financial Officer and Assistant Chief Executive - People, Organisation & Development	
Wards(s) affected: **All**	Report for: **Decision**

1. Purpose

1.1 This report considers a review of our governance arrangements and the requirement to publish a Governance Compliance Statement by 1 March 2008.

2. Recommendations

2.1 That our revised governance proposals be approved as set out in section 7 of the report.

2.2 That Staff Side be asked to confirm whether all staff are represented at Pensions Committee and if not we seek an additional representative.

2.3 That Committee decide whether the employee representative(s) will also represent pensioners or if we seek a separate representative for pensioners at Pensions Committee.

2.4 That the Governance Compliance Statement be approved.

2.5 That we produce a revised Governance Compliance Statement once all stakeholders are represented on this Committee.

Kevin Bartle for KEVIN BARTLE

Report Authorised by: Gerald Almeroth – Chief Financial Officer

Contact Officers:
John Hardy, Head of Finance-Budgeting, Projects & Treasury (tel no: 020 8489 3726) Ian Benson, Pensions Manager (tel no: 020 8489 3824)
3. Executive Summary 3.1 This report sets out proposals to further improve our governance arrangements by increasing representation at Pensions Committee to cover all stakeholders. 3.2 The report also sets out our first Governance Compliance Statement that is required to be published by 1 March 2008. It is proposed that we produce a revised Governance Compliance Statement once all stakeholders are represented on this Committee.
4. Reasons for any change in policy or for new policy development (if applicable) 4.1 Further improvements are proposed in our governance arrangements by increasing representation at Pensions Committee to cover all stakeholders. This will help us to fully comply with the new Governance Compliance Statement.
5. Local Government (Access to Information) Act 1985 5.1 Report to Pensions Panel on 5 October 2006 – DCLG consultation on the Local Government Pension Scheme – governance arrangements.

6 Background

6.1 Pensions Panel on 5 October 2006 considered draft proposals issued by DCLG for consultation purposes and agreed that the 'best practice model' be submitted to a future meeting of Pensions Committee.

6.2 At the above meeting the Panel heard that DCLG had embarked on a consultation exercise for governance arrangements in the LGPS. A discussion paper was presented, which put forward ideas for the future governance and stewardship of the LGPS. In line with previous discussions at Panel, it was suggested that the proposals should be welcomed for improving governance. A further detailed report would be prepared for a future meeting of the Panel, once the results of the DCLG statutory consultation exercise were known, to consider establishing a ‘Pensions Representative Panel’, that takes account of the range of issues considered, such as:

- The composition of the panel;
- The frequency of meetings;
- Arrangements for voting rights;
- Scope and remit;
- Access to committee papers and scheme information;
- Relationships and communications with main committees;
- Constitutional issues, Chairmanship, etc;
- Costs, accommodation, facility time, etc;
- Publicity.

6.3 For a representative panel to be effective, it was noted that it would be necessary to encourage sufficient admitted and scheduled bodies to engage in the process, which meant having a mechanism in place to provide for employer representatives.

6.4 This report was delayed pending receipt of the draft statutory guidance and best practice principles to be issued. These were received on 8 October 2007. The document received from DCLG is shown in Appendix 1 and includes a detailed description of each of the best practice principles against which compliance is to be measured and secondly contains guidance on how the compliance statement should be completed. Our first Governance Compliance Statement must be published by 1 March 2008 and we also need to submit a copy to the Secretary of State at the Department for Communities and Local Government. This document would sit alongside other documents – including our Statement of Investment Principles (SIP), Funding Strategy Statement (FSS) and Communication Policy Statement.

6.5 The objective of the Governance Compliance Statement is to make the administration and stewardship of the scheme more transparent and accountable to our stakeholders.

6.6 Where compliance does not meet the published standard, there is a requirement under Regulation 73A(1)(c) to give, in our governance compliance statement, the reasons for not complying.

6.7 In response to previous proposals issued by the then ODPM we published details of our governance and stewardship arrangements by 1 April 2006. This is included as Appendix 2. The purpose of this first step by ODPM was to gauge the current position.

7. Governance proposals

7.1 We have considered the best way to meet the best practice principles. We have rejected the option of having a 'Secondary Panel' in addition to Pensions Committee as we believe it would be better to increase representation on Pensions Committee. We propose that the following approach is adopted.

7.2 That all stakeholders be represented at Pensions Committee. These would be non-voting members of the Committee in accordance with guidelines and legal requirements. Up to three additional representatives would seem to be appropriate; one to represent admitted and scheduled bodies, one pensioner to represent all pensioners and one person to represent other staff, if necessary, subject to confirming whether all staff are represented. An alternative option would be for the employee side representative(s) to also represent all classes of pensioner. We would also keep our annual AGM as this represents good practice.

7.3 If it is agreed that we have a separate representative for pensioners as opposed to being represented by the employee side representative(s), it is suggested that we invite nominations for the role of representative of the various categories of member (e.g. pensioner and deferred) and hold the election at our Annual General meeting (AGM) on 24 July 2008. We propose to invite pensioners and deferred members to express an interest when we invite them to attend our AGM.

7.4 We shared this report in advance of a meeting held this afternoon (29 January) with admitted and scheduled bodies that was chaired by the Chair of this Committee to seek their views. Any responses will be given verbally at tonight's meeting. It is suggested that we write to all admitted and schedules bodies to invite them to nominate somebody to be represented at Pensions Committee. We currently copy non exempt Pensions Committee agendas, reports and minutes to admitted and scheduled bodies and plan to continue this practice.

7.5 The Council's Overview and Scrutiny Committee is permitted to scrutinise the performance of this Committee. This is permitted in accordance with Section 21, Sub-Section 2 (C) of the Local Government Act 2000, Chapter 22.

8. Governance Compliance Statement

8.1 The objective of the Governance Compliance Statement is to make the administration and stewardship of the scheme more transparent and accountable to our stakeholders.

8.2 The report now considers each of the best practice principles against which compliance is to be measured (with each of the principles being set out in bold). We have set out how we compare with the published standards. It has been assumed that the proposals to revise our governance arrangements as set out in section 7 of the report will be approved although until these are actually implemented this will not improve our rating compared to the published standards. However our plans to increase the representatives on pensions Committee will be explained in our Governance Compliance Statement (included as Appendix 3). It is suggested that we produce a revised Statement once all stakeholders are represented on this Committee.

8.3 Where compliance does not meet the published standard, there is a requirement under Regulation 73A(1)(c) to give, in our governance compliance statement, the reasons for not complying.

The Principles

Part 11/A - Structure

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.

Pensions Committee has full responsibility for these functions and meets six times per annum.

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 main committee.

Pensions Committee includes an employee representative as part of its membership. We plan to increase the membership of the Committee to include all stakeholders as soon as possible and then all stakeholders will be represented at Pensions Committee. These would be non-voting members of the Committee. Up to three additional representatives would seem to be right; one to represent admitted and scheduled bodies, one pensioner to represent all pensioners and deferred members and one person to represent staff that our existing employee representative on the Committee does not represent. An alternative option would be for the employee side representatives to also represent all classes of pensioner. We also hold an Annual General meeting (AGM).

Bi-annually a meeting is held with admitted and scheduled bodies that is chaired by the Chair of Pensions Committee to cover key issues. e.g. actuarial valuation results where the Actuary is invited to attend.

C. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

We plan to have representation of all stakeholders at Pensions Committee as soon as possible and not to have a secondary committee or panel.

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.

We plan to have representation of all stakeholders at Pensions Committee as soon as possible and not to have a secondary committee or panel.

Part 11/B - Representation

A. That all key stakeholders are afforded the opportunity to be represented. within the main or secondary committee structure. These include :-

i) employing authorities (including non-scheme employers, eg, admitted bodies);
ii) scheme members (including deferred and pensioner scheme members),
iii) independent professional observers, and
iv) expert advisors (on an ad-hoc basis).

Pensions Committee includes an employee representative as part of its membership. We plan to increase the membership of the Committee to include all stakeholders as soon as possible and then all stakeholders will be represented at Pensions Committee. These would be non-voting members of the Committee. Up to three additional representatives would seem to be right; one to represent admitted and scheduled bodies, one pensioner to represent all pensioners and one person to represent staff that our existing employee representative on the Committee does not represent. An alternative option would be for the employee side representatives to also represent all classes of pensioner.

Pensions Committee is attended by an Independent Advisor to trustees to advise Trustees.

We have held an Annual general meeting (AGM) for the past five years and all stakeholders are invited to attend the meeting.

B. That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

The employee representative that currently is a member of Pensions Committee receives all non-exempt papers and attends the Committee other than for exempt matters. Equal access is given to training and also has a full opportunity to contribute to the decision making process but without voting rights. This approach will also be followed when we increase the membership of the Committee to include all stakeholders as soon as possible, namely to represent admitted and scheduled bodies, to represent all pensioners and staff not represented by the current member of the Committee.

Part II/C - Selection and role of lay members

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.

We meet the above by ensuring that proper training is received at regular intervals. Where technical pensions matters are discussed at Committee meetings .e.g. asset liability modelling proper explanation is given in the report and by our external Investment Advisors when introducing their reports.

When we increase the membership of Pensions Committee we will similarly ensure that new representatives are given the same opportunities for training.

Part II/D – Voting

Elected members of authorities other than the administering authority and lay members

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.

Our policy regarding voting rights is clearly set out. Only elected members of Pensions Committee are permitted to vote.

Part II/E – Training/Facility time/Expenses

A. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

Clear policy is to ensure that there is regular and comprehensive access to training. The current stakeholder representative on Pensions Committee has equal access and we plan the same approach for new stakeholder representatives.

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.

Our policy applies equally to all members on Pensions Committee including those that represent stakeholders.

Part II/F – Meetings (frequency/quorum)

A. That an administering authority's main committee or committees meet at least quarterly.

Pensions Committee meets six times per annum plus any special meetings.

B. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

We plan to have representation of all stakeholders at Pensions Committee as soon as possible and not to have a secondary committee or panel.

C. That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

An employee representative is currently a member of Pensions Committee. We plan to have representation of all stakeholders at Pensions Committee as soon as possible and not to have a secondary committee or panel. Up to three additional representatives would seem to be right; one to represent admitted and scheduled bodies, one pensioner to represent all pensioners and one person to represent staff that our existing employee representative on the Committee does not represent. An alternative option would be for the employee side representatives to also represent all classes of pensioner.

We have held an Annual general meeting (AGM) for the past five years and all stakeholders are invited to attend the meeting.

Bi-annually a meeting is held with admitted and scheduled bodies, and is chaired by the Chair of Pensions Committee.

Part II/G - Access

A. That subject to any rules in the councils 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.

Equal access is given. This will be applied for additional stakeholder representatives that will sit on pensions Committee as soon as possible.

Part II/H – Scope

A. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

Wider scheme issues are also part of the Council's governance arrangements.

Some pensions matters are dealt with by General Purposes Committee regarding determining the Council's policies as Employing Authority and determining the terms of release of Chief and Deputy Chief Officers aged 50 or over and made redundant or retired early with a claim on the pension scheme.

Part II/I – Publicity

A. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

Our current Governance Policy Statement has been properly shared with stakeholders; it has been approved by Pensions Committee, copied to our admitted and scheduled bodies, seen by the trade union representative that is a member of Pensions Committee and published on Harinet.

Our proposed first Governance Compliance Statement is appended for approval and will be shared with stakeholders.

9. Comments of the Head of Legal Services

The Head of Legal Services has been consulted on the content of this report. Regulation 73A of the Local Government Pension Scheme Regulations 1997 requires the preparation by an administering authority of a written statement setting out certain matters regarding the governance of their scheme. The statement must also set out the extent to which the governance arrangements are in compliance with statutory guidance given by the Secretary of State. The statement set out in the report at Appendix 3 complies generally with the relevant Regulation and draft Statutory Guidance. The method of representation of scheme members is not prescribed in the draft Statutory Guidance and thus there is some discretion as to how this can be achieved, provided that the principle is retained that all scheme members should be afforded the opportunity to be represented. Section 21(2)(c) of the Local Government Act 2000 allows the authority's Overview and Scrutiny Committee to review or scrutinise decisions made, or other action taken, in connection with the discharge of any functions not the responsibility of the Cabinet.

APPENDIX 1

Communities and Local Government

www.communities.gov.uk
community, opportunity, prosperity

8 October 2007

Addressees as attached

Our Ref:
Your Ref:

Dear Colleague,

LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 1997
GOVERNANCE COMPLIANCE STATEMENT : STATUTORY GUIDANCE

1. Further to my letter of 6 June regarding the Local Government Pension Scheme (Amendment)(No 3) Regulations 2007 (SI 2007 No 1561), I enclose a draft of the statutory guidance about completing a Governance Compliance Statement that the Secretary of State is required to issue under Regulation 73A(1)(c) of the 1997 regulations.

2. The draft has been prepared with the assistance of the CLG chaired working group on Governance and is now being circulated widely to all LGPS interested parties for further comment.

3. In making comments, consultees are asked to bear in mind that the scope of the guidance is restricted to the way in which an appointing council delegates its statutory functions under the scheme. Issues like investment and scheme administration performance and investment and communication policy, for example, are already dealt with separately under the 1997 regulations which require administering authorities to prepare, publish and maintain Statements of Investment Principles, Funding Strategy Statements and Communication Policy Statements. In addition, Regulation 76C of the 1997 Regulations, enables an administering authority to establish a local Pension Administration Strategy which includes the power to introduce local performance targets and to measure performance against them. In this respect, the Governance Compliance Statement is to be seen as just one of a number of similar measures that are designed to make the administration and stewardship of the scheme more transparent and accountable to its stakeholders.

4. Comments are invited on the format, structure and content of the draft guidance. In this respect, it should be noted that references to the provisions on governance

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123 Victoria Street
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Web Site : www.xoq83.dial.pipex.com

compliance statements in the final version will include references to both the 1997 and 2007 (Administration) Regulations. The first such statement must be published by 1st March 2008. Although comments received in response to this letter will be fully considered in preparing the final version, it is suggested that administering authorities and other interested parties should start preparing for the initial publication on the basis of the attached draft guidance.

5. The draft includes at Annex A, an example of a compliance statement template (Principle A on Structure) which administering authorities may wish to adopt when submitting a copy of their statement to the Secretary of State as required by Regulation 73A(5). This arrangement would not, however, fetter the way that an administering authority chooses to publish their statement, either as a stand alone document or as part of their Pension Fund Annual Report (see Regulation 76B(e) of the 1997 Regulations).

6. The closing date for comments is 9 November **2007**. For enquiries on the content of this letter and the attached draft guidance, please e-mail me (Robert.holloway@communities.gsi.gov.uk) or telephone 0207 944 5998. Alternatively, contact Margaret.dunleavy@communities.gsi.gov.uk. Or telephone 0207 944 6012. A copy of this letter and the draft guidance is available in the "What's New" section of our web site at www.xoq83.dial.pipex.com.

Yours sincerely,

Bob Holloway

Addressed to :

The Chief Executive of
- County Councils (England)
- District Councils (England)
- Metropolitan Borough Councils (England)
- Unitary Councils (England)
- County and County Borough Councils in Wales
- London Borough Councils
- South Yorkshire Pension Authority
- Tameside Metropolitan Borough Council
- Wirral Metropolitan Borough Council
- Wolverhampton Metropolitan Borough Council
- Bradford Metropolitan Borough Council
- South Tyneside Metropolitan Borough Council
- London Pensions Fund Authority
- Environment Agency

Town Clerk, City of London Corporation
Clerk, South Yorkshire PTA
Clerk, West Midlands PTA

Local Government Association/Local Government Employers

CIPFA
LAPFF
NAPF
Society of County Treasurers
Society of Metropolitan Treasurers
Society of London Treasurers
Society of Welsh Treasurers
Association of District Treasurers
PPMA
Audit Commission
Association of Consulting Actuaries

Trades Union Congress
UNISON
TGWU
UCATT
NAPO
UNITE

Members of CLG Governance Working Group

Other Government Departments with public service pension interests
GAD
DoE (NI)
SPPA

DRAFT GOVERNANCE COMPLIANCE STATUTORY GUIDANCE

PART I

INTRODUCTION

1. This guidance is issued to all administering authorities in England and Wales with statutory responsibilities under the Local Government Pension Scheme Regulations 1997 (as amended) and other interested parties listed at Annex B and deals with the compliance standards against which Local Government Pension Scheme ("LGPS") committees are to measure themselves.

2. The guidance includes a combination of descriptive text explaining the rationale of each compliance principle and a description of the relevant statutory provision of the 1997 Regulations (Regulation 73A(1)(c) refers) that requires LGPS administering authorities to measure their governance arrangements against the standards set out in this statutory guidance. Where compliance does not meet the published standard, there is a requirement under Regulation 73A(1)(c) to give, in their governance compliance statement, the reasons for not complying.

3. The Secretary of State will keep the content of the guidance under review in the light of administering authorities and other interested parties' experience of applying the best practice standards. The guidance will be updated as necessary to reflect this and subsequent legislative changes.

BACKGROUND

4. The LGPS is a common scheme throughout England and Wales, administered by 89 individual pension funds, which includes the Environment Agency. In the context of the UK public pensions sector, it is atypical in being funded with assets in excess of £100bn. Viewed in aggregate, the LGPS is the largest funded occupational pension scheme in the UK.

5. As a statutory public service scheme, the LGPS has a different legal status compared with trust based schemes in the private sector. Matters of governance in the LGPS therefore need to be considered on their own merits and with a proper regard to the legal status of the scheme. This includes how and where it fits in with the local democratic process through local government law and locally elected councillors who have the final responsibility for its stewardship and management. The LGPS is also different in the respect that unlike most private sector schemes where scheme members bear some, if not all, of the investment risk, the accrued benefits paid by local authorities are guaranteed by statute and, perhaps more importantly, are ultimately to be paid by the local authority revenue and not from the pension funds themselves. The pension funds exist to defray the costs. On this basis, it is the local authority itself, and local council tax payers, who are the final guarantors of the scheme.

6. The word "trustee" is often used in a very general sense to mean somebody who acts on behalf of other people but in pensions law it has a more specific meaning. Certain occupational pension schemes, primarily in the private sector, are established under trust law. Under a trust, named people ("trustees") hold property on behalf of other people (called beneficiaries). Trustees owe a duty of care to their beneficiaries and are required to act in their best interests, particularly in terms of their investment decisions. Although those entrusted to make statutory decisions under the LGPS are, in many ways, required to act in the same way as trustees in terms of their duty of care, they are subject to a different legal framework and to all the normal duties and responsibilities of local authority councillors. But they are not trustees in the strict legal sense of that word.

7. Trustees are needed in the private sector to ensure better scheme security, prevent employer-led actions which could undermine a scheme's solvency and to ensure that investment decisions are not in any way imprudent. But in a statutory scheme like the LGPS, benefits are guaranteed by statute, independent of investment performance. As such, scheme members in the LGPS bear none of the investment risk. The entitlements and benefits payable to scheme members in trust based schemes are, potentially at least, more volatile and dependent ultimately on the effectiveness and stewardship of their trustees. It is because of this greater risk to security that the Pensions Act 1995 first introduced the concept of member nominated trustees to ensure that scheme beneficiaries are part of the decision making process. But even member nominated trustees must act in the interest of the fund/scheme and must not take decisions out of self-interest. The Pensions Act 2004 simply extends that status.

8. Elected councillors have legal responsibilities for the prudent and effective stewardship of LGPS funds and in more general terms, have a clear fiduciary duty in the performance of their functions. Although there is no one single model in operation throughout the 89 LGPS fund authorities in England and Wales, most funds are managed by a formal committee representing the political balance of that particular authority. Under section 101 of the Local Government Act 1972, a local authority can delegate their pension investment functions to the Council, committees, sub-committees or officers, but there are a small number of LGPS fund authorities which are not local authorities and therefore have their own, distinct arrangements.

9. It is also relevant to note that under The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (SI 2000 No 2853) and The Local Authorities Executive Arrangements (Functions and Responsibilities) (Wales) Regulations 2001 (Welsh SI 2001 No 2291), statutory decisions taken under schemes made under sections 7, 12 or 24 of the Superannuation Act 1972, are not the responsibility of the Executive arrangements introduced by the Local Government Act 2000. This means, for example, that the executive cannot make decisions in relation to discretions to be exercised under the LGPS, or make decisions relating to the investment of the Pension Fund and related matters. These functions have continued to be subject to the same legislative framework as they were before the passing of the Local Government Act 2000, including delegations under section 101 of the Local Government Act 1972. Such delegations vary from local authority to local authority depending on local circumstances. However, the Secretary of State has advised that where such decisions were delegated to committees or to officers, then those

delegations should continue. (see paragraphs 5.10 and 5.11 of the Statutory Guidance to English Local Authorities – New Council Consitutions : Guidance Pack Volume 1)

10. Under section 102 of the Local Government Act 1972, it is for the appointing council to decide upon the number of members of a committee and their terms of office. They may include committee members who are not members of the appointing council and such members may be given voting rights by virtue of section 13 of the Local Government and Housing Act 1989. On this basis, it is open to pension committees to include representatives from district councils, scheme members and other lay member representatives, with or without voting rights, provided that they are eligible to be committee members (eligibility rules are set out in section 15 of the Local Government and Housing Act 1989).

STATUTORY BACKGROUND

11. In response to proposals issued by the former Office of the Deputy Prime Minister, the Local Government Pension Scheme Regulations 1997 were amended to require LGPS administering authorities to publish details of their governance and stewardship arrangements by 1 April 2006. The purpose of this first step was to gauge progress made in the democratisation of LGPS committees and governance arrangements in general and to assess what action, if any, should be taken to ensure that all committees operate consistently at best practice standards. On 30 June 2007, the 1997 regulations were further amended to require administering authorities to report the extent of compliance against a set of best practice principles to be published by CLG, and where an authority has chosen not to comply, to state the reasons why. The first such statement must be published by 1st March 2008.

12. The relevant provision, shown below, is regulation 73A of the Local Government Pension Scheme Regulations 1997 :-

"Governance compliance statement

73A.—(1) An administering authority must prepare a written statement setting out—

(a) whether they delegate their function, or part of their function, in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the authority;

(b) if they do so—

(i) the terms, structure and operational procedures of the delegation;

(ii) the frequency of any committee or sub-committee meetings;

(iii) whether such a committee or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and, if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.

(2) An administering authority must publish the first such statement on or before 1st March 2008.

(3) An administering authority must—

(a) revise their statement following a material change in respect of any of the matters mentioned in paragraph (1); and

(b) publish the statement as revised.

(4) In preparing or revising their statement an administering authority must consult such persons as they consider appropriate.

(5) When they publish their statement, or the statement as revised, an administering authority must send a copy of it to the Secretary of State.”.”

This regulation will cease to have effect from 1 April 2008 when the 1997 regulations are revoked. After that date, the relevant provision will be regulation xxx of the Local Government Pension Scheme (Administration) Regulations 2007.

PURPOSE

13. The purpose of this guidance is two fold. Firstly, Part II of the guidance provides a detailed description of each of the best practice principles against which compliance is to be measured (with each of the principles being set out in **bold** type) and secondly, it includes guidance on how the compliance statement in Part II should be completed.

TERMINOLGY

14. Throughout this paper, the distinction is made between those committees or sub-committees that have been formally constituted under 101 of the Local Government Act 1972 (“main committees”) and other committees or panels that have been established outside of that provision (“secondary committees”). Unless reference is made to “elected members”, the word “member” where it appears in the text is used to denote any member of a main or secondary committee, whether elected or not.

POSITION OF NON-LOCAL AUTHORITY ADMINISTERING AUTHORITIES

15. Regulation 73A of the Local Government Pension Scheme Regulations 1997 and this guidance made under powers granted by Regulation 73A(1)(c) of those regulations apply equally to all LGPS administering authorities in England and Wales. It is recognised, however, that a small number of administering authorities are not constituted as local authorities and are not therefore subject to the legal framework imposed on local authorities and their committees by local government legislation. In these cases, the authorities concerned are still required to measure the extent to which they comply with the principles set out in Part II of this guidance and where they are unable to comply, for example, because of their special position, to explain this when giving reasons for being unable to comply.

SUGGESTED READING

16. Although not a formal part of this guidance, it is recommended that administering authorities and other stakeholders should be aware of the contents of the following documents :-

a) Good Governance Standards for Public Services (Office for Public Management (Alan Langlands – January 2005)

b) Code of Corporate Governance in Local Government (CIPFA/SOLACE – 2007)

c) Institutional Investment in the UK – A Review (HM Treasury – March 2001)

d) Local Government Pension Scheme : Pension Fund Decision Making – Guidance Note (CIPFA Pensions Panel – 2006)

e) Guidance for Chief Finance Officers : Principles for Investment Decision Making in the Local Government Pension Scheme in the UK (CIPFA Pensions Panel – 2001)

PART II - THE PRINCIPLES

Part II/A - Structure

17. Elected members have legal responsibilities for the prudent and effective stewardship of LGPS pension funds and, in more general terms, have a clear fiduciary duty in the performance of their functions. Although there is no one single model in operation throughout the 89 fund authorities in England and Wales, most finds are managed by a formal committee representing the political balance of that particular authority. Under section 101 of the Local Government Act 1972, a local authority can delegate their statutory functions to the Council, committees, sub-committees or officers, but there are a small number of fund authorities which are not local authorities and therefore have their own, distinct arrangements (see para xx above).

18. The formal committee structures operated by individual pension fund authorities reflect local circumstances and priorities and it is not the remit of this guidance to prescribe a "one size fits all" approach. The evidence collected by Communities and Local Government in 2006 indicated that the overwhelming majority of these committees operate efficiently and effectively despite the variations in their constitution, composition and working practices. The intention is not therefore to level out these differences but instead to ensure that these different structures reflect the best practice principles described below :-

a. **The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.**

b. **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 main committee.**

c) **That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.**

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.**

Part II/B - Representation

19. Under section 102 of the Local Government Act 1972, it is for the appointing council to decide upon the number of members of a committee and their terms of office. They may include committee members who are not members of the appointing council and such members may be given voting rights (see Part II/C) by virtue of section 13 of the Local Government and Housing Act 1989. On this basis, it is open to pension committees to include representatives from district councils, scheme member and other lay member representatives, with or without voting rights, provided that they are eligible to be committee members (eligibility rules are set out in section 15 of the Local Government and Housing Act 1989)

20. The number of stakeholders affected by the local management of the pension scheme and governance of pension funds is vast and it is accepted that it would be impractical to expect individual committee structures to encompass every group or sector that has an interest in the decisions that fall to be made under the scheme's regulations. The following principles are therefore intended to ensure that the composition of committees, both formal and secondary, offers all key stakeholders the opportunity to be represented. For example, deferred and pensioner scheme members clearly have an interest in the performance of pension committees but it would be impractical in many cases to expect them to have direct representation on a committee. Instead, there is no reason why a representative of active scheme members couldn't also act on behalf of deferred and pensioner scheme members. Similarly, a single seat in the committee structure could be offered to somebody to represent the education sector as a whole, rather than having individual representatives for FE Colleges, Universities, academies, etc.

21. An independent professional observer could also be invited to participate in the governance arrangement to enhance the experience, continuity, knowledge, impartiality and performance of committees or panels. Such an appointment could improve the public perception that high standards of governance are a reality and not just an aspiration. Moreover, the independent observer would be ideally placed to carry out independent assessments of compliance against the Myners' principles, both in terms of the 2004 follow up report and the latest NAPF consultation on next steps, together with other benchmarks that the fund authority's performance is measured against. The management of risk is a cornerstone of good governance and a further role for the independent observer would be to offer a practical approach to address and control risk, their potential effects and what should be done to mitigate them and whether the costs of doing so are proportionate.

a) **That all key stakeholders are afforded the opportunity to be represented. within the main or secondary committee structure. These include :-**

> **i) employing authorities (including non-scheme employers, eg, admitted bodies);**
> **ii) scheme members (including deferred and pensioner scheme members),**

iii) independent professional observers, and
iv) expert advisors (on an ad-hoc basis).

b) **That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.**

Part II/C - Selection and role of lay members

22. It is important to emphasise that it is no part of the fund authority's remit to administer the selection process for lay members sitting on main or secondary committees or to ensure their attendance at meetings, unless they wish to do so. Their role is to determine what sectors or groups are to be invited to sit on LGPS committees or panels and to make places available. Effective representation is a two way process involving the fund authorities providing the opportunity and the representative bodies initiating and taking forward the selection process under the general oversight of the fund authority.

23. Members of a main decision-making LGPS committee are in the same position as trustees in the private sector. Trustees owe a duty of care to their beneficiaries and are required to act in their best interests at all times, particularly in terms of their investment decisions. They are not there to represent their own local, political or private interest. On a main committee, the interests of the scheme and its beneficiaries must always be put before the interests of individual groups or sectors represented on the committee whereas on secondary committees or panels that are not subject to the requirements of the Local Government Act 1972, private interests can be reflected in proceedings.

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.**

Part II/D – Voting

24. Although the 2006 survey conducted by Communities and Local Government revealed that formal votes taken by LGPS committees were rare, it is important to set out the legal basis on which voting rights are, or may be prescribed to elected and lay members.

Elected members of the administering authority

a) All elected members sitting on LGPS committees have voting rights as a matter of course. Regulation 5(1)(d) of the Local Government (Committee and Political Groups) Regulations 1990 (SI No 1553/1990) provides that voting rights will be given to a person appointed to a sub committee of a committee established under the Superannuation Act 1972 who is a member of the authority which appointed the committee.

Elected members of authorities other than the administering authority and lay members

b) Under sections (13)(1)(a) and (2)(a) of the Local Government and Housing Act 1989, a person who is a member of a committee appointed by an authority under the Superannuation Act 1972 but who is not a member of that authority, shall be treated as a non-voting member of that committee. However, the provisions of section 13(3) and (4) of the 1989 Act allow an administering authority discretion as to whether or not a member of a committee is treated as a voting or non-voting member.

Lay members of advisory panels, etc

c) Because they are not formally constituted committees, secondary committees or panels on which lay members sit are not subject to the restrictions imposed by the Local Government Act 1972 on voting rights. In these circumstances, there is nothing to prevent voting rights being conferred by the administering authority on all lay members sitting on panels or informal committees outside the main decision making committee.

25. The way in which an administering authority decides to exercise its discretion and confer voting rights on lay members is not a matter for which the Secretary of State, under his regulations making powers under the Superannuation Act 1972, has any remit. The issue of whether voting rights should be conferred on district council or scheme member representatives, for example, is a matter for individual administering authorities to consider and determine in the light of the appointing council's constitution. Regulation 73A(1)(b)(iii) of the 1997 Regulations already requires an administering authority to include in their statement details of the extent to which voting rights have been conferred on certain representatives, but does not extend to the need to give reasons where this is not the case.

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.**

Part II/E – Training/Facility time/Expenses

26. In 2001, the Government accepted the ten investment principles recommended by Paul Myners in his report, "Institutional Investment in the UK". The first of those principles, Effective Decision Making", called for decisions to be made only by persons or organisations with the skills, information and resources necessary to take them effectively. Furthermore, where trustees - or in the case of the LGPS, members of formal committees - take investment decisions, that they have sufficient expertise to be able to evaluate critically any advice they take.

27. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) already requires administering authorities to report the extent of compliance with this principle. But on the wider issue of governance, it is equally important that they report on the extent to which training facilities, etc, are extended to lay members sitting on either main or secondary LGPS committees.

28. If all stakeholders represented on LGPS committees or panels are to satisfy the high standards set out in the Myners' set of investment principles, it follows that equal opportunity for training, and hence facility time, should be afforded to all lay members. They too should have access to the resources that would enable them to evaluate the expert advice commissioned by the main investment committee and to comment accordingly. But the way that is achieved at local level is not a matter for national prescription, in particular, the policy adopted by individual administering authority or local authority on the reimbursement of expenses incurred by committee or panel members. On this basis, the best practice standard which administering authorities are required to measure themselves focuses on the extent to which they have a clear and transparent policy on training, facility time and reimbursement of expenses and whether this policy differs according to the type of member, for example, elected member or scheme member representative.

a) **That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.**

b) **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.**

Part II/F – Meetings (frequency/quorum)

29. From the evidence collected in 2006 by Communities and Local Government, it is clear that the majority of administering authorities who have introduced a multi-level committee structure operate different reporting/meeting cycles for each committee or panel. In the case of main, formal committees, these tend to meet, on average, at least quarterly, though there are a few examples where meetings are held less often. As a general rule, it is expected that main committees should meet no less than quarterly. Although it is important that any secondary committees or panels should also meet on a regular and consistent basis, it is accepted that there should be no compulsion or expectation that there should be an equal number of main and secondary committee meetings. But as a matter of best practice, it is expected that secondary meetings should be held at least bi-annually.

30. Although the overwhelming majority of administering authorities operate effective representation policies, the evidence collected in 2006 by Communities and Local Government revealed a small handful of authorities who restrict membership of their committee's to elected members only. In legal terms, this is permissible, but in terms of best practice, it falls well short of the Government's aims of improving the democratisation of LGPS committees. In those cases where stakeholders, in particular, scheme members, are not represented, it is expected that administering authorities will provide alternative means for scheme employers, scheme members, pensioner members, for example, to be involved in the decision-making process. This may take for the form of employer road-shows or AGMs where access is open to all and where questions can be addressed to members of the main committee.

a) **That an administering authority's main committee or committees meet at least quarterly.**

b) **That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.**

c) **That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented**

Part II/G - Access

31. The people to whom the appointing council entrust with taking investment, and other statutory decisions, is a matter for that council to consider and determine. However, it is important that others, outside that formal decision-making process but involved in some capacity in the general governance arrangement, have equal access to committee papers and other documents relied on by the main committee in taking its decisions.

32. The fact that voting rights are not conferred on individual lay members should not put them on any less footing than those members who serve on the main committee with full voting rights. Secondary panels or committees have a clear role to underpin and influence the work of the main committee and can only do so where there is equal access.

a) **That subject to any rules in the councils 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.**

Part II/H – Scope

33. Traditionally, LGPS committees have focussed on the management and investment of the funds under their supervision, with questions arising from the main scheme dealt with by officers with delegated authority under the council's constitution. In recent times, however, and reflecting the trend towards de-centralisation, administering authorities have become responsible for formulating a significant number of policy decisions on issues like abatement, compensation and the exercise of discretions under the scheme's regulations. These are key decisions which should be subject to the rigorous supervision and oversight of the main committee. And with the prospect of some form of cost sharing arrangement to be in place by March 2009, it is clear that there are other key scheme issues, outside the investment field, that main committees may need to address in the future. Given the not insignificant costs involved in running funds, LGPS committees and panels need to receive regular reports on their scheme administration to ensure that best practice standards are targeted and met and furthermore, to satisfy themselves and to justify to their stakeholders that the fund is being run on an effective basis. This would involve reviewing the committee's governance arrangements and the effective use of its advisers to ensure sound decision making. Here, the use of an independent

professional observer, free of conflicts of interest, would enable a wholly objective approach to be taken to the stewardship of the fund.

34. All this points to LGPS committees perhaps becoming more multi-disciplined than they have been in the past, with a consequential impact on, for example, membership and training. For example, if decisions are to be taken by LGPS committees that could impact on the cost-sharing mechanism, it is reasonable to expect scheme member representatives to be present on those decision making committees, given that those decisions could have a direct impact on the position of scheme members under the scheme.

35. Although the future may see LGPS committees having a broader role than at present, individual administering authorities may adopt different strategies to meet these new demands. The more traditional approach might be to extend the scope of existing investment committees to include general scheme and other administrative issues. But already, there is evidence to suggest that some administering authorities have opted instead to establish new sub committees to deal solely with non-investment, scheme issues. The purpose of this guidance is not to prescribe the way in which administering authorities develop and adapt to scheme developments. Instead, the intention is to increase the awareness that administering authorities and their committees must be flexible and willing to change to reflect scheme changes and wider pensions issues.

a) **That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements**

Part II/I – Publicity

36. A key component in improving the democratisation of LGPS governance arrangements is to increase the awareness that opportunities exist for scheme member representatives and LGPS employers, for example, to become part of these arrangements. But the onus for increasing awareness should not rest entirely with the administering authority. It is just as much the role of scheme member representatives and scheme employers to keep abreast of developments in this field and to play an active part in the selection and appointment of committee or panel members. This is best left to local choice and discretion. However, administering authorities are reminded that under Regulation 76B(1)(e) of the 1997 Regulations, the latest version of their Governance Compliance Statement must be included in their Pension Fund Annual Report.

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.**

Annexe A : Compliance Statement

Principle A – Structure

	Not Compliant*				Fully Compliant
a)					
b)					
c)					
d)					

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

LOCAL GOVERNMENT PENSION SCHEME
GOVERNANCE SURVEY - A SUMMARY

On 31 March 2006, LGPS administering authorities in England and Wales were required to publish details of their governance arrangements. This paper summarises the results of the survey. For the purposes of the paper, "representation" is taken to mean either attendance of scheme members (or their representatives) on formal investment/pension committees; attendance on secondary, formal committees; attendance on informal, advisory panels or the opportunity to attend annual general meetings, employer/scheme road shows, etc. A list of LGPS funds showing the extent of representation across these four areas is attached.

1. Main findings

a). Percentage of fund authorities with representation on main committee = 84%

b) Percentage of fund authorities with representation on second committees = 11%

c) Percentage of fund authorities with representation on advisory panels = 15%

d) Percentage of fund authorities with representation at AGMs, etc = 18%

e) Percentage of fund authorities with none of the above = 15% (11 authorities)

(English shire counties = 4 authorities)
(London Boroughs = 6 authorities)
(Mets + others = 0 authorities)
(Welsh Unitaries = 1 authority)

2. Membership of Committees

a) Average Number of members on all main committees= 10 (range = 3 to 20)

b)) English shire counties = 11 (range = 5 to 20)

c) London Boroughs = 8 (range = 4 to 15)

d) Mets + others = 15 (range = 10 to 20)

e) Welsh Unitaries = 8 (range = 3 to 16)

3. Frequency of Committee Meetings

a) 86% of committees meet at least Quarterly

b) 2 committees meet twice per annum

c) 3 committees meet five times per annum

d) 5 committees meet six times per annum

4. Voting Rights

a) 4 authorities have conferred voting rights on lay members :-

- English shire counties = 2
- London boroughs = 0
- Mets and others = 2
- Welsh Unitaries = 0

b) 5 authorities have conferred voting rights to lay members on advisory panels :-

- English shire counties = 1
- London boroughs = 0
- Mets and others = 2
- Welsh Unitaries = 2

5. Number of "trustees"

a) Total number of members on main committees = 900

b) Total number of elected members on main committees = 650 (72%)

c) Number of lay members on main committees = 250 (28%)

6. Correlation between Governance and Funding levels

a) No representation - Average funding level = 73% (range = 62% to 79%)

b) 1 item of representation - Average funding level = 72.3%) (range = 61% to 88%)

c) 2 items of representation - Average funding level = 76.5% (range = 64% to 94%)

d) 3 items of representation - Average funding level = 83.5% (range = 74% to 93%)

e) 4 items of representation - Average funding level = 79.5% (range = 77% to 82%)

(Average funding level of all funds in England and Wales = 73.4%)

7. Correlation between Governance and Investment Returns

a) No representation (11 funds) 03/04 Average = 25.7% (range = 22% to 30%)
04/05 Average = 13% (range = 10% to 17%)

b) 1 item of representation (47 funds) 03/04 Average = 25.4% (range = 20% to 30%)
04/05 Average = 13.1% (range = 9% to 20%)

c) 2 items of representation (19 funds) 03/04 Average = 23.5% (range = 20% to 29%)
04/05 Average = 11.7% (range = 7% to 15%)

d) 3 items of representation (2 funds) 03/04 Average = 24.5% (range = 24% to 25%)
04/05 Average = 12.5% (range = 12% to 13%)

e) 4 items of representation (2 funds) 03/04 Average = 23% (range = 22% to 24%)
04/05 Average = 13.5% (range = 13% to 14%)

REPRESENTATION LEVELS IN THE LGPS (ENGLAND & WALES)

LGPS Funds with no form of representation :-

Buckinghamshire County Council
Cambridgeshire County Council
West Sussex County Council
Worcestershire County Council
Hackney London Borough
Hounslow London Borough
Kensington & Chelsea London Borough
Corporation of London
Redbridge London Borough
Wandsworth London Borough
City & County of Swansea

LGPS Funds with 1 form of representation :-

Berkshire Pension Fund
Cheshire County Council
Cornwall County Council
Devon County Council
Durham County Council
East Riding County Council
Essex County Council
Gloucestershire County Council
Hampshire County Council
Hertfordshire County Council
Kent County Council
Lincolnshire County Council
Teeside Pension Fund
Norfolk County Council
Northumberland County Council
Oxfordshire County Council
Somerset County Council
Suffolk County Council
Surrey County Council
Warwickshire County Council
Wiltshire County Council

Barking London Borough
Barnet London Borough
Bexley London Borough
Bromley London Borough
Camden London Borough
Croydon London Borough
Ealing London Borough
Enfield London Borough
Hammersmith & Fulham London Borough
Haringey London Borough
Harrow London Borough
Havering London Borough
Hillingdon London Borough
Lambeth London Borough
Lewisham London Borough
Merton London Borough
Newham London Borough
Richmond-Upon-Thames London Borough
Southwark London Borough
Sutton London Borough
Tower Hamlets London Borough
Waltham Forest London Borough
City & County of Cardiff Council
Rhondda, Cynon & Taff CBC
Gwynedd Pension Fund
Dyfed Pension Fund
Torfean County Borough Council

LGPS Funds with 2 forms of representation :-

Bath & NE Somerset Council (Avon Pension Fund)
Bedfordshire County Council
Cumbria County Council
Derbyshire County Council
Dorset County Council
East Sussex County Council
Isle of Wight County Council
Lancashire County Council
Leicestershire County Council
Nottinghamshire County Council
Staffordshire County Council
Shropshire County Council
Brent London Borough
Islington London Borough
Merseyside Pension Fund
Tyne & Wear Pension Fund
London Pensions Fund Authority
Environment Agency
Clwyd Pension Fund
South Yorkshire PTA

LGPS Funds with 3 forms of representation:-

West Midlands Pension Fund
Tameside Pension Fund

LGPS Funds with 4 forms of representation :-

West Yorkshire Pension Fund
South Yorkshire Pension Fund

Note 1

Information relating to the following LGPS funds was not available at the time the survey was conducted :-

Northamptonshire County Council
North Yorkshire County Council
Greenwich London Borough
Royal Borough of Kingston Upon Thames
City of Westminster
Powys County Council

Note 2

The four forms of representation referred to above include :-

- membership of scheme members (or their representatives) on formal investment/pension committees;
- membership of scheme members (or their representatives) on secondary, formal committees;
- membership of scheme members (or their representatives) on informal, advisory panels, or
- the opportunity to attend annual general meetings, fund roadshows, etc.

Department for Communities and Local Government
Local Government and Firefighters' Pension Schemes Division
May 2006

APPENDIX 2

Our existing governance policy statement

Local Government Pension Scheme Regulations 1997 (as amended)
Governance Policy Statement Regulation 73A

1.	**Introduction** Haringey Council is the Administering Authority for the London Borough of Haringey Pension Fund.
	The Councils obligation to maintain a pension fund is derived from powers conferred by sections 7 12 and 24 of the Superannuation Act 1972. The Council must establish a body to act as the trustees of its Pension Fund. The Council must also establish a body to take decisions on pension entitlements. Under the legislation, this can be the same body exercising both functions or different bodies for the Pension Fund management and for pension entitlements respectively. Alternatively, the functions can be shared. In line with the principles of investment guidance (the Myners principles) decisions should only be taken by persons or organisations with the skills, information and resources necessary to take them effectively.
2.	**Delegation:**
	The Council's constitution is made in compliance with Sections 29 and 37 of the Local Government Act 2000 and the DETR L.G.A. 2000 (Constitutions) (England) Direction 2000. Under the terms of the Constitution adopted by the full Council on 21 May 2007, the function of acting as trustees of the pension fund is delegated to the Pensions Committee and decisions on pension entitlements to General Purposes Committee. These are delegations made under sections 101 and 102 of the Local Government Act 1972.
3.	**Frequency of Meetings:**
	The frequency of meetings is determined by the full Council in May of each year. For the Municipal Year May 2007 to April 2008 it was determined that:- • General Purposes Committee would meet 6 times a year • Pensions Committee would meet 6 times throughout the year The constitution makes provision for additional meetings to be called and for scheduled meetings to be cancelled for lack of business.
4.	**Terms of Reference:**
	a General Purposes Committee
	The powers of General Purposes Committee in respect of pensions

	entitlements are as follows:-		
	i.	Paragraph H – Pensions; determining the Council's policies as Employing Authority and determining the terms of release of Chief and Deputy Chief Officers aged 50 or over and made redundant or retired early with a claim on the pension scheme.	
	b Pensions Committee The powers of Pensions Committee are as follows:-		
	i.	To exercise the functions which are stated not to be the responsibility of The Executive in Regulation 2 and Schedule 1 paragraph H of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (as amended) and in any Statute or subordinate legislation further amending these Regulations. The Committee's functions are those of the 'Administering Authority' under the Pensions legislation.	
	ii	To be responsible for the management and monitoring of the Council's Pension Fund through:-	
		a.	Selection and appointment of Investment Managers, master custodian, provider of performance monitoring against benchmarks services, providers for the Council's Additional Voluntary Contributions (AVC) Scheme and specialist external advisors as necessary.
		b.	Reviewing Investment Managers' performance.
		c.	Formulation of investment, socially responsible investments (SRI) and governance policies.
		d.	Maintaining a Statement of Investment Principles.
		e.	Publicising statements and policy documents as required by legislation, Government directives and best practice.
	iii	To monitor and as appropriate to decide upon Pensions Administration issues.	
	iv	To receive the Pension Fund budget annually and monitor spend against this.	
	v.	To agree to the admission of bodies into the Council's Pension Scheme.	
	vi	To receive actuarial valuations.	
5	**Structure and operational procedures of the delegation**		
	a. General Purposes Committee **i.** The Committee has 8 elected members (4 majority group and 4 opposition group).		
	b. Pensions Committee		

	i. The Panel has 8 elected members (6 majority members and 2 opposition members) There is also a designated Trade Union representative and an independent advisor to the Trustees. **ii.** Decisions taken by the Pensions Committee under its terms of reference come into immediate effect unless the matter specifically requires approval by full Council. **iii.** Voting rights reside only with the elected members. **iv.** There are no representatives of the Fund's employing bodies.

APPENDIX 3

GOVERNANCE COMPLIANCE STATEMENT

The objective of the Governance Compliance Statement is to make the administration and stewardship of the scheme more transparent and accountable to our stakeholders.

Principle A – Structure

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.	**Fully Compliant**
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 main committee.	**Partly compliant**
c)	C. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	**Not applicable**
d)	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.	**Not applicable**

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Pensions Committee includes an employee representative as part of its membership. We plan to increase the membership of the Committee to include all stakeholders as soon as possible Then all stakeholders will be represented at Pensions Committee. These would be non-voting members of the Committee. Up to three additional representatives would seem to be right; one to represent admitted and scheduled bodies, one pensioner to represent all pensioners and one person to represent staff that our existing employee representative on the Committee does not represent. An alternative option would be for the employee side representatives to also represent all classes of pensioner. We also hold an Annual General meeting (AGM).

Bi-annually a meeting is held with admitted and scheduled bodies that is chaired by the Chair of Pensions Committee to cover key issues. e.g. actuarial valuation results where the Actuary is invited to attend.

Please use this space if you wish to add anything to explain or expand on the ratings given above :- Pensions Committee has full responsibility for these functions and meets six times per annum. We plan to have representation of all stakeholders at Pensions Committee as soon as possible and not to have a secondary committee or panel.

Principle B – Representation

a)	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- i) employing authorities (including non-scheme employers, e.g, admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) independent professional observers, and iv) expert advisors (on an ad-hoc basis).	**Partly compliant**
b)	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**Fully compliant**

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) Pensions Committee includes an employee representative as part of its membership.

We plan to increase the membership of the Committee to include all stakeholders as soon as possible Then all stakeholders will be represented at Pensions Committee. These would be non-voting members of the Committee. Up to three additional representatives would seem to be right; one to represent admitted and scheduled bodies, one pensioner to represent all pensioners and one person to represent staff that our existing employee representative on the Committee does not represent. An alternative option would be for the employee side representatives to also represent all classes of pensioner. Pensions Committee is attended by an Independent Advisor to trustees to advise Trustees. We have held an Annual general meeting (AGM) for the past five years and all stakeholders are invited to attend the meeting.

Please use this space if you wish to add anything to explain or expand on the ratings given above :- The employee representative that currently is a member of Pensions Committee receives all non-exempt papers and attends the Committee other than for exempt matters. Equal access is given to training and also has a full opportunity to contribute to the decision making process but without voting rights. This approach will also be followed when we increase the membership of the Committee to include all stakeholders as soon as possible, namely to represent admitted and scheduled bodies, to represent all pensioners and staff not represented by the current member of the Committee.

Principle C – Selection and role of lay members

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	**Fully compliant**

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :- We meet the above by ensuring that proper training is received at regular intervals. Where technical pensions matters are discussed at Committee meetings .e.g. asset liability modelling proper explanation is given in the report and by our external Investment Advisors when introducing their reports. When we increase the membership of Pensions Committee we will similarly ensure that new representatives are given the same opportunities for training.

Principle D – Voting

a)	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	**Fully compliant**

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :- Our policy regarding voting rights is clearly set out. Only elected members of Pensions Committee are permitted to vote.

Principle E – Training, Facility time, Expenses

a)	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	**Fully compliant**
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.	**Fully compliant**

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :- Clear policy is to ensure that there is regular and comprehensive access to training. The current stakeholder representative on Pensions Committee has equal access and we plan the same approach for new stakeholder representatives.

Principle F – Meetings (frequency/quorum)

a)	That an administering authority's main committee or committees meet at least quarterly.	**Fully compliant**
b)	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	**Not applicable**
c)	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which	**Partly compliant**

	the interests of key stakeholders can be represented	

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) An employee representative is currently a member of Pensions Committee. We plan to have representation of all stakeholders at Pensions Committee as soon as possible and not to have a secondary committee or panel. Up to three additional representatives would seem to be right; one to represent admitted and scheduled bodies, one pensioner to represent all pensioners and one person to represent staff that our existing employee representative on the Committee does not represent. An alternative option would be for the employee side representatives to also represent all classes of pensioner. We have held an Annual general meeting (AGM) for the past five years and all stakeholders are invited to attend the meeting. Bi-annually a meeting is held with admitted and scheduled bodies, and is chaired by the Chair of Pensions Committee.

Please use this space if you wish to add anything to explain or expand on the ratings given above :- Pensions Committee meets six times per annum plus any special meetings. We plan to have representation of all stakeholders at Pensions Committee as soon as possible and not to have a secondary committee or panel.

Principle G – Access

a)	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	**Fully compliant**

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :- Equal access is given. This will be applied for additional stakeholder representatives that will sit on pensions Committee as soon as possible.

Principle H – Scope

a)	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	**Fully compliant**

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :- Wider scheme issues are also part of the Council's governance arrangements. Some pensions matters are dealt with by General Purposes Committee regarding determining the Council's policies as Employing Authority and determining the terms of release of Chief and Deputy Chief Officers aged 50 or over and made redundant or retired early with a claim on the pension scheme.

Principle I – Publicity

a)	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	**Partly compliant**

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) Our current Governance Policy Statement has been properly shared with stakeholders; it has been approved by Pensions Committee, copied to our admitted and scheduled bodies, seen by the trade union representative that is a member of Pensions Committee and is published on Harinet. The creation of a pensions page on the Haringey Web site will widen scope for all stakeholders to access this document. Our proposed first Governance Compliance Statement is appended for approval and will be shared with stakeholders.

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

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Haringey Council

Pensions Committee **On 29 January 2008**

Report title: Tendering of the investment advice and actuarial advice contracts

Report of: Chief Financial Officer

Ward(s) affected: All	**Report for: Non Key Decision**

1. Purpose

1.1 To report progress made in tendering the investment advice and actuarial advice contracts and to seek approval for a further extension of the current contract with Hymans Robertson.

2. Recommendations

2.1 That progress to date be noted.

2.2 That the current contract with Hymans Robertson be extended by a further two months, from 1 June 2008 to 31 July 2008.

G. Almeroth

Report authorised by: Gerald Almeroth – Chief Financial Officer

Contact officer: John Hardy, Head of Finance-Budgeting, Projects & Treasury
(tel no: 020 8489 3726)

3. Executive Summary

3.1 This report sets out the timetable being worked to for tendering both contracts in accordance with the EU procurement process as we now anticipate that over a three year period costs will exceed the OJEU limit of £139,893.

3.2 It is necessary to extend the current contract by two months because it will take longer than anticipated to tender the contracts.

4. Reasons for any change in policy or for new policy development (if applicable)

No changes are proposed.

5. Local Government (Access to Information) Act 1985

5.1 The following background papers were used in the preparation of this report:

5.1.1 Previous reports to Pensions Committee regarding the tendering of investment advice and actuarial advice contracts.

5.2 This report contains exempt and non-exempt information. Exempt information is contained in Appendix A and is not for publication. The exempt information is under the following category (identified in the amended Schedule 12A of the Local Government Act 1972:

(3) information relating to the financial or business affairs of any particular person (including the authority holding that information).

6. Report

6.1 Pensions Panel on 26 March 2007 agreed that the provision of the actuarial and investment services contract be tendered from 1 June 2008 as two separate contracts to provide market testing and greater transparency.

6.2 Work is in hand to tender these two contracts via the EU procurement process as we now anticipate that costs over a three year contract term will exceed the £139,893 OJEU limit taking account of work that is recharged to admitted and scheduled bodies.

6.3 It is necessary to do a short extension to the current contract with Hymans Robertson because it will take a little longer than anticipated to tender the new contracts. We have been reviewing the specifications and checking these against other London Borough's.The proposed period of extension is as set out in Appendix A, para. A.1.

6.4 It is estimated that, in the extension period, if approved, the amounts set out in Appendix A, para. A.2 would be incurred. Existing terms of the current contract with Hymans Robertson will apply.

6.5 Costs incurred under the existing contract are charged to the Pension Fund.

6.6 The main dates regarding tendering of the contracts are as set out in Appendix A, para. 3. and these will necessitate a special meeting of this Committee to award each contract.

7. Comments of the Head of Legal Services

7.1 This report is seeking to have the current actuarial and investment advice contract with Hymans Robertson varied by extending it for two months.

7.2 Under the Pension Committee's Terms of Reference set out in the Council's Constitution at Part Three, Section C, paragraph 9, the Committee performs the functions of the Administering Authority under Pensions legislation. Sub-paragraph 9(b)(i) expressly confers on the Committee responsibility for management and monitoring of the Pension Fund including, amongst other things, the selection and appointment of specialist external advisors to the Fund, as necessary. This responsibility, by necessary implication, includes the power to authorise the variation and extension of specialist advisers' contracts, including the current contract with Hymans Robertson.

7.3 Legal Services should be consulted on the exact terms of the contract extending the current contract.

7.4 The Head of Legal Services confirms that there are no legal reasons preventing Members from approving the recommendations in paragraph 2 of the report.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is exempt