Haringey Council

NOTICE OF MEETING

Pensions Committee

THURSDAY, 17TH SEPTEMBER, 2009 at 19:00 HRS - CIVIC CENTRE, HIGH ROAD, WOOD GREEN, N22 8LE.

PLEASE NOTE: THE ADVISOR WILL BRIEF ALL MEMBERS OF THE PENSIONS COMMITTEE, PRIOR TO THE MEETING, AT 18:30HRS.

MEMBERS: Councillors C. Harris (Chair), Thompson (Vice-Chair), Beacham, Mallett, Wilson, Winskill and Cooke

IN ATTENDANCE: Howard Jones, Roger Melling, Earl Ramharacksingh and David Corran

AGENDA

1. APOLOGIES FOR ABSENCE

2. URGENT BUSINESS

The Chair will consider the admission of any late items of urgent business. Late items will be considered under the agenda item where they appear. New items will be considered under agenda item 13 for unrestricted items and item 16 for exempt items of urgent business.

3. DECLARATIONS OF INTEREST

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 judgement 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 - 8)

To confirm and sign the minutes of the Pensions Committee meeting held on 18 June 2009.

5. AUDIT OF FINANCIAL STATEMENTS 2008/09 AND REPORT TO THOSE CHARGED WITH GOVERNANCE IN 2008/09

Report of Grant Thornton, the Council's appointed auditor of the Pension Fund.

6. QUARTERLY ASSET ALLOCATION REVIEW (PAGES 9 - 22)

Report of the Chief Financial Officer to include a report from the Fund's investment advisors, Hewitt's.

7. FUND PERFORMANCE REPORT (PAGES 23 - 40)

Report of the Chief Financial Officer to consider the latest investment performance data for the Pensions Fund and for each of the Fund's investment managers, to compare responsible investments information provided by our Fund Managers with that supplied by LAPFF and to report 2009/10 budget monitoring to the end of July 2009.

8. ATTENDANCE BY FUND MANAGERS

Attendance by Fund Managers for presentations and questions from Trustees, the Advisor to Trustees and the Chief Financial Officer.

8:00pm – Capital International
8:30pm – Fidelity

9. **CONSULTATION DRAFT - 'LGPS - DELIVERING AFFORDABILITY, VIABILITY AND FAIRNESS' (PAGES 41 - 64)**

Report of the Chief Financial Officer to formulate a response to the consultation draft.

10. **FUND ADMINISTRATION REPORT (INCLUDING REVIEW OF AVC PROVIDERS) (PAGES 65 - 72)**

Report of the Assistant Chief Executive, People and Organisational Development to consider 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 (LGPC) and Department for Communities and Local Government (DCLG).

11. **CESSATION OF ADMISSION AGREEMENT WITH WORKFORCE FACILITIES LTD (PAGES 73 - 76)**

Report of the Chief Financial Officer and Assistant Chief Executive, People and Organisational Development, to report on the funding position attributable to Workforce Facilities Ltd on their cessation as an admitted body to the Haringey Pension Fund at 7th May 2009.

12. **ADMISSION AGREEMENT FOR EUROPA LTD (PAGES 77 - 80)**

Report of the Chief Financial Officer and Assistant Chief Executive, People and Organisational Development to approve the admission of Europa Workspace Solutions Ltd as transferee admitted body participating in the Haringey Council Pension Fund from 8th April 2009.

13. **NEW ITEMS OF URGENT BUSINESS**

14. **EXCLUSION OF THE PRESS AND PUBLIC**

The following item is likely to be the subject of a motion to exclude the press and public from the meeting as it contains exempt information as defined in Section 100a of the Local Government Act 1972; namely information relating to the business or financial affairs of any particular person (including the Authority holding that information).

15. **EXEMPT MINUTES (PAGES 81 - 82)**

To confirm and sign the exempt minutes of the Pensions Committee meeting held on 18 June 2009.

16. **ANY EXEMPT ITEMS OF URGENT BUSINESS**

Yuniea Semambo
Head of Local Democracy and Member Services
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Wednesday, 9 September 2009

Agenda Item 4

MINUTES OF THE PENSIONS COMMITTEE
THURSDAY, 18 JUNE 2009

Councillors	C. Harris (Chair), Thompson (Vice-Chair), Beacham, B. Harris, Mallett and Wilson
Apologies	Councillor Winskill, David Fishman and Roger Melling
Also Present:	Howard Jones (Independent Advisor to Trustees) and Earl Ramharacksingh

MINUTE NO.	SUBJECT/DECISION	ACTION BY
PRPP88.	**APOLOGIES FOR ABSENCE** Apologies for absence were received from Cllr Winskill, for whom Cllr Oakes was substituting. Apologies for absence were also received from David Fishman and Roger Melling.	
PRPP89.	**URGENT BUSINESS** There were no items of urgent business.	
PRPP90.	**DECLARATIONS OF INTEREST** Cllr Wilson declared a personal interest in respect of his employment by the National Association of Pension Funds. Cllr Thompson 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 training events and conferences, to which some of the Fund Managers may have directly contributed. Cllr C. Harris declared a personal interest as a contributing member to the Haringey Pension Scheme. Cllr B. Harris declared a personal interest as a contributing member to the Haringey Pension Scheme. Cllr Mallett declared a personal interest as a contributing member to the Haringey Pension Scheme.	
PRPP91.	**MINUTES** **RESOLVED** That the minutes of the meeting of the Pensions Committee held on 19	

	March 2009 and the special meeting of the Pensions Committee held on 30 April 2009 be approved and signed by the Chair.	
PRPP92.	**PENSION FUND FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2009, AUDIT PLAN AND BUDGET 2009/10** Martin Grundy and Matthew Cass from Grant Thornton presented a report on the audit plan for the Pension Fund accounts, which were now to be audited separately from the Council's main accounts in line with Government guidance. The audit approach was outlined in the report. The Chair asked for further information about the additional fee and the extra work necessitated by the separate audit of the Pension Fund accounts. Grant Thornton reported that the fee was a standard fee imposed by the Audit Commission. As the Pension Fund audit no longer formed part of the overall Council audit, it was reported that additional pension-specific work was required in order to provide a specific audit opinion on the Pension Fund. It was clarified that payment for the audit of the Pension Fund accounts was not charged to the Pension Fund when the audit formed part of the overall Council audit, but that the separate audit would be charged to the Pension Fund. In response to a question from the Committee regarding governance arrangements, Grant Thornton reported that the separate account would ultimately be the responsibility of the Council, and that specific issues included within the Pension Fund accounts would be reported back to the Committee by Grant Thornton as part of their audit work. Grant Thornton reported that they would provide the Committee with an interim report and a final report on the audit, and that the Committee could also request work on any specific areas of concern. The Chief Financial Officer presented the Pension Fund financial statements and budget. In response to a question from the Committee regarding the level of cash holdings, it was confirmed that this was partly due to funds earmarked for strategic allocation, with the investment of these funds having taken longer than anticipated due to market conditions and was also influenced by pending purchases and sales by Fund Managers. The Committee was advised that the cash holdings represented less than 2% of the Fund and therefore were not considered to be too high. In response to a question as to whether there were any issues to report in respect of the admitted and scheduled bodies contributing to the Fund, the Chief Financial Officer reported that there were no issues in respect of the financial statements. On a motion by the Chair it was: **RESOLVED** i) That the Pension Fund's financial statements for 2008/09 be approved.	

	ii) That the Audit Plan of Grant Thornton be agreed. iii) That the proposed fee of £38,500 be approved. iv) That the Pension Fund's budget for 2009/10 be approved.	
PRPP93.	**ACTUARIAL FUNDING UPDATE AS AT 31 MARCH 2009** Bryan Chalmers of Hymans Robertson presented a report on the interim valuation of the Pension Fund, the full formal valuation of which would be carried out as at end of March 2010. Mr Chalmers reported that the present economic situation was challenging for all pension funds. The Committee was advised that the funding level had been 77.7% in 2007 and had reduced to 53% at 31 March 2009, although there had been some improvement since then. The Committee was advised that investment performance over the previous two years accounted for the change in funding level. Mr Chalmers discussed the options available for addressing the funding gap, and reported that any change in employer contribution rates would not be considered until 2011/12, a year after the full valuation. The investment of different types of asset class to reduce the funding deficit was also discussed. In response to a question from the Committee, Mr Chalmers confirmed that the employee contribution rate could not be changed as this was fixed nationally by the Government, but that the employer contribution rate could be amended. Mr Chalmers reported that the introduction of cost-sharing measures to enable contribution rises to be shared between employers and employees might mean that increases in employee contribution rates could be possible in future. The Committee asked about protecting the Fund, and Mr Chalmers advised that the affordability and stability of the employer contributions needed to be considered, along with the need for good stewardship and prudence. The Fund's actuaries would produce different models in advance of the full valuation in 2010 to try to identify the best approach for the long term benefit of the Fund. In response to a question from the Committee regarding the Haringey Pension Fund's funding position in relation to other local authority pension funds, Mr Chalmers estimated that Haringey fell within the lower third quartile for funding levels. Mr Chalmers clarified that the capacity in which the actuary was working was as advisor to the Trustees of the Pension Fund and not the London Borough of Haringey as an employer. The Committee asked about the way in which assumptions about investment performance were made, in response to which Mr Chalmers advised that historical investment performance would be looked at as part of the assessment of whether the investment performance assumptions were reasonable. In response to a question from the	

	Committee regarding the level of data looked at in the analysis of liabilities, Mr Chalmers reported that membership of a service called Club Vita would provide access to in-depth analysis of membership data at a much greater level of detail than the standard mortality figures and that it was hoped that a proposal to join Club Vita would be presented to London Borough pension schemes in due course. **RESOLVED** That the content of the report be noted.	
PRPP94.	**QUARTERLY ASSET ALLOCATION REVIEW** The Chief Financial Officer introduced the report on asset allocation. The Committee had previously looked at asset allocation in principle, and this was the first report looking at whether there would be any benefit to the Fund in making an adjustment to the asset allocation at this time. It was the decision of the Committee whether they wished to take any action or not. Hewitt presented their analysis of the general market conditions and their recommendations for changes to the Fund's portfolio. Hewitt recommended an increased exposure to corporate bonds relative to gilts, as it was anticipated that these would have a greater yield, and reported that they still advised a cautious position in respect of equities for the time being. Hewitt also reported that they anticipated opportunities to invest in property later in the year, but recommended no changes in position in respect of property for the present. It was noted that it was Hewitt's role as advisors to provide the Committee with information on all the options available to them, even if these were areas the Committee did not wish to pursue. In response to a question from the Committee about how the suggested increase in corporate bonds should be funded, Hewitt suggested that 2% be moved from conventional gilts to corporate bonds. In response to a question from Howard Jones, independent advisor to the Trustees, Hewitt reported that their position on the default and downgrade risk for corporate bonds was lower than the market consensus at present, but was in line with the market over a 10 year period. Cllr Bob Harris left the meeting at 20:30hrs. In response to a question from the Committee, Hewitt reported that the current allocation, strategic allocation and actual performance of the Pension Fund would be monitored to analyse the impact of asset allocation decisions on the Pension Fund. The Committee asked about emerging markets, in response to which Hewitt reported that they would recommend mandates with the flexibility	

	to invest globally. Individual fund managers would need to reflect the Pension Fund's policy on ethical investments in their selection of global stock. On a motion by the Chair it was: **RESOLVED** i) That the Committee agree in principle to a movement in the Pension Fund asset allocation of 2% from conventional gilts to corporate bonds. ii) That Hewitt be asked to look into options for investment in currency and report back to the Pensions Committee. iii) That implementation of the decision of the Committee be delegated to the Chief Financial Officer.	
PRPP95.	**FUND PERFORMANCE UPDATE** The Chief Financial Officer presented the update on Fund Performance. It was reported that overall performance for the quarter was above benchmark by 0.09% but below target by 0.32%. **RESOLVED** i) That the Fund performance position as at end of March 2009 be noted. ii) That responsible investments information provided be noted. iii) That the budget management position to the end of April 2009 (period 1) be noted.	
PRPP96.	**ATTENDANCE BY FUND MANAGERS** The Committee received presentations from two Fund Managers as follows: **FIDELITY** Fund performance for the equities mandate was 0.68% above the benchmark and 1.02% below the target in annualised terms in the 24-month period to the end of March 2009. Fund performance for the bonds mandate was 1.10% below the benchmark and 1.70% below the target in annualised terms in the 24-month period to the end of March 2009. Fidelity explained the reasons for current performance and answered	

	questions from Trustees. In response to a question from the Committee, Fidelity reported that performance for the equities mandate for Quarter 1 to date was 10.4% in absolute terms, against the benchmark of 11.2%, and performance for the bonds mandate was 2.1% in absolute terms, against the benchmark of 0.7%. **CAPITAL** Fund performance for the equity mandate was 1.54% below the benchmark and 3.54% below the target in annualised terms in the 24-month period to the end of March 2009. Fund performance for the fixed income mandate was 1.54% below the benchmark and 2.54% below the target in annualised terms in the 24-month period to the end of March 2009. Capital explained the reasons for current performance and answered questions from Trustees. In response to a question from the Committee, Capital reported that performance for the equity mandate for Quarter 1 to date was 7.9% against the benchmark of 8.4% and that performance for the fixed income mandate for Quarter 1 to date was 1.09% against the benchmark of 1.12%. The Committee requested that Capital look into their composite benchmark figure and report back, as it had been reported that the Capital composite benchmark had underperformed the world benchmark in 2008/09. **RESOLVED** That the presentations and answers to questions given by the Fund Managers be noted.	
PRPP97.	**FUND ADMINISTRATION UPDATE** Ian Benson, Pensions Manager, presented the Fund administration update and advised the Committee of updates relating to monitoring ill-health retirements, Equitable Life compensation payments, the South Tyneside appeal case and pension surveys. The report also contained information on ill-health retirement budget monitoring, the schedule of agreed early retirements, the receipt of contributions from employing bodies and schools, the results of the pensions survey and the compliance statement. In response to a question from the Committee regarding the rise in early retirement cases, Mr Benson reported that this related to instances of redundancy where redeployment had not been possible. The Chief Financial Officer confirmed that every effort was made to redeploy staff, but that there were instances where this was not possible. The Chief Financial Officer confirmed that in these cases contributions were paid to the Pension Fund from the appropriate service budget. It was also confirmed that the £9k cost of added years for early retirement under the	

	employing bodies was paid by the employing bodies so there was no cost to the Pension Fund. The Committee asked for an explanation of the variation between the expected and actual numbers of ill-health retirements. Mr Benson reported that procedures around the statutory requirements for ill-health retirement were now more rigorous than they had been in the past, and also that management of ill-health issues had improved. **RESOLVED** That the Administration Report update be noted.	
PRPP98.	**ADMISSION OF ONTIME PARKING SOLUTIONS LTD. TO THE HARINGEY PENSION FUND** Ian Benson, Pensions Manager, presented the report on the admission of Ontime Parking Solutions Ltd as a transferee admitted body in the Haringey Council Pension Fund from 1 June 2009, as the result of the TUPE transfer of staff from the Abandoned Vehicles Team. In response to a question from the Committee, Mr Benson reported that Ontime Parking Solutions responsibilities would be moving abandoned vehicles from the public highways. It was clarified that a separate contractor was responsible for the same function on Homes for Haringey property. **RESOLVED** i) That the admission of Ontime Parking Solutions Ltd be agreed as a transferee admitted body to the Fund from 1st June 2009. ii) That the agreement is a closed agreement such that no new members can be admitted. iii) That the contractor is required to provide a Bond valued by the Fund actuary to cover potential pensions liabilities should the contractor fail commercially. iv) That final approval to the terms of this Admission Agreement be delegated to the Chief Financial Officer.	
PRPP99.	**NEW ITEMS OF URGENT BUSINESS** There were no new items of urgent business.	
PRPP100	**EXCLUSION OF THE PRESS AND PUBLIC** **RESOLVED** That the press and public be excluded from the meeting for the following	

	items.	
PRPP101	**EXEMPT MINUTES** **RESOLVED** That the exempt minutes of the special meeting of the Pensions Committee held on 30 April 2009 be approved and signed by the Chair.	
PRPP102	**REVIEWING THE POSITION OF A FUND MANAGER** The Committee considered the report to review the position of a Fund Manager. **RESOLVED** That the recommendations of the report be agreed.	
PRPP103	**EXEMPT ITEMS OF URGENT BUSINESS** There were no exempt items of urgent business.	

COUNCILLOR CATHERINE HARRIS

Chair

Grant Thornton

London Borough of Haringey Pension Fund ("The Fund")

Audit of Financial Statements 2008/09
Report to those Charged with Governance 2008/09

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Appendices

1 Executive Summary

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected.

1.1 Purpose of report

The London Borough of Haringey ('the Council') is responsible for the preparation of accounts which record its financial position as at 31 March 2009 and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's accounts present fairly the financial position of the Council. Those accounts are required to include, as a separate appendix, the accounts of the Council's pension fund.

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Pensions Committee of London Borough of Haringey Pension Fund ('the Fund') to specifically consider the key issues affecting the Fund, and the preparation of the Fund's accounts for the year ended 31 March 2009. We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the accounts of the Council.

In consequence, our work did not encompass a detailed review of all aspects of the system and controls and cannot be relied upon necessarily to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might develop.

The document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) (ISAUK) 260, and to report audit findings to "those charged with governance", designated as the Pensions Committee.

1.2 Status of audit

Our audit of the Fund is substantially complete. No matters remain unresolved which will prevent the full accounts being recommended for approval at the General Purposes Committee meeting on 24 September 2009.

1.3 Audit conclusions

Overall, our review of the Pension Fund concluded that the pensions department operates with the level of efficiency we would expect for a fund of its size. The working papers produced supporting the disclosures in the accounts were clear to understand. Documents were suitably annotated, demonstrating those that had been subject to peer review, by whom, and when the review had taken place.

There were no issues arising from our work this year. Paragraphs 2.3 to 2.5 therefore consider how the points raised last year have been actioned this year.

In section 3, we have highlighted potential audit adjustments arising from our work.

1.4 Acknowledgements

We would like to record our appreciation for the positive co-operation and assistance provided to us by the finance department and other staff at the Council during the course of our audit.

Grant Thornton UK LLP

September 2009

2 Detailed findings

2.1 Adoption of the revised SORP

The Fund accounts are required to adopt the revised Pension SORP (May 2007) for the first time this year. The most significant change to the disclosure in the accounts compared to previous years is that investments are required to be disclosed using fair values as follows:

- investments previously valued using mid-market prices are now required to use bid prices

- investments in derivatives contracts to be accounted for using fair values (previously such investments were accounted for using economic exposure).

The adoption of the revised SORP represents a change in accounting policy. Ordinarily this would require prior year balances to be re-stated to reflect revised presentation. The SORP however, recommends only amounts which would result in material differences to the opening balances to be re-stated. It was concluded that the change in presentation did not result in material differences to the opening balances, and thus no re-statement was considered necessary.

2.2 Evaluation of key controls

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Fund's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements.

We performed a high level review of the general IT control environments as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact our audit of the accounts.

2.3 Use of shared bank accounts

As highlighted in our report last year, cash balances are held in shared bank accounts with Council main funds, and concerns were raised over the suitability of this practice in the longer term. Our review this year, as with last year, concluded that good controls are in place to ensure funds relating to the fund are easily identifiable.

[wording to mirror that of the overall audit. At time of issuing draft, still to be finalised]

Our recommendation remains that consideration is given to the Fund having its own bank accounts separate from those of the Council.

2.4 Timeliness of contributions receipts

Regulations require that contributions deducted from members' salaries are paid over to the fund by no later than the nineteenth day following the calendar month from which the contributions have been deducted.

During our review of contributions, it was noted for two of the scheduled and admitted bodies, contributions were late for between one and two months up to a maximum of five occasions each. This represents a significant improvement on our review last year where late contributions were experienced for ten of the scheduled and admitted bodies, where in some cases, contributions were late every single month.

2.5 Timeliness of settling benefit cases

During our review of benefits paid during the year ended 31 March 2008, it was noted that in some cases, lump sum benefit payments were not being settled in a timely manner. This was due to the timing of the BACS run where some benefits had been approved for payment part way through the month, but were not paid until the month end BACS run.

No significant issues were noted from our testing this year.

3 Audit adjustments

During the course of our work, certain potential adjustments were identified, and have been actioned as detailed in the following paragraphs. All related to re-classification anomalies, thus having no impact on the net assets of the Fund.

3.1 Adjusted changes

The following item has been processed by management:

- A review of benefit payments showed that an amount totalling £422,305 relating to tax free cash sums had been included in pensions cost. The adjustment has no effect on the fund account, but facilitates comparison with prior year figures.

3.2 Unadjusted changes

A refund of overpaid added years contributions totalling £7,129 had been allocated to "Contribution refunds" as opposed to reducing the employee contributions disclosure. There is no impact on the net assets of the fund, and it is not considered significant to have an adverse impact on the presentation in the fund account.

A Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

- To reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.
- To share information to assist both the auditor and those charged with governance fulfil their respective responsibilities.
- To provide to those charged with governance constructive observations arising from the audit process.

Matters Reported under ISA 260

Area	Key Messages
Independence	We are able to confirm our independence and objectivity as auditors and draw attention to the following points: • We are independently appointed by the Audit Commission. • The firm has been assessed by the Audit Commission as complying with its required quality standards. • The appointed auditor and client service manager are subject to rotation every 5 years • We comply with the Auditing Practices Board's Ethical Standards.
Audit Approach	Our approach to the audit was set out in our 2008/09 audit plan. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice. Other key factors to highlight include: • We consider the materiality of items in the financial statements in determining the audit approach and in determining the impact of any errors. • We have been able to place appropriate reliance on the key accounting systems operating at the Fund for final accounts audit purposes.

Area	Key Messages
Accounting Policies	We consider that the Fund has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies were in accordance with the Local Government Pension Scheme Regulation 2007 (As Amended) and with guidelines set out in the Code of Practice of Local Authority Accounting in the United Kingdom 2008. The financial statements also comply with Statement of Recommended Practice, Financial Reporting of Pension Schemes (Revised May 2007), as applicable to Local Government Pension Schemes. The Pensions Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by FRS 18.
Audit Adjustments	We have discussed with management a number of adjustments to the accounts primarily to improve the fair presentation of the financial statements as well as the clarity and presentation of disclosure notes. These adjustments are summarised in paragraph 3.1.
Unadjusted Errors	From the audit results mentioned previously we have identified one unadjusted error which was not material to the pension fund accounts. This has been disclosed in paragraph 3.2.
Other Matters	No material weaknesses in internal control were identified during our audit.

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Agenda Item 6

Haringey Council

Agenda item:

Pensions Committee **On 17 September 2009**

Report Title. **Quarterly Asset Allocation review**

Report of **The Chief Financial Officer**

Signed :

Contact Officer : **Colin Duck – Corporate Finance**
Telephone 020 8489 3731

Wards(s) affected: **All**	Report for: Non key decision

1. Purpose of the report

1.1. To review the Fund's asset allocation position.

2. Introduction by Cabinet Member

2.1 Not applicable.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1. This report links in with the need to regularly monitor the performance of the Pension Fund.

4. Recommendation

4.1 That the Fund's Asset Allocation position be noted.

5. Reason for recommendation

5.1. Our external investment advisors, Hewitt, advise no further changes be made to current asset allocation at this stage.

6. Other options considered

6.1. None.

7. Summary

7.1. This report considers the latest Asset Allocation advice received from the Fund's external investment advisors. This will be updated further at the meeting taking account of up to date market data and views.

8. Head of Legal Services Comments

8.1. The Head of Legal Service has been consulted on the content of this report and comments that the Committee should give full consideration to the financial advice received concerning the recommendation on current asset allocation. Members are reminded of the duty on an administering authority to conduct a coherent overview of investment activity and performance of the Pension Fund in order to ensure the suitability of investments and types of investments.

9. Equalities & Community Cohesion Comments

9.1. There are no equalities issues arising from this report.

10. Consultation

10.1. Not applicable.

11. Service Financial Comments

11.1. The Pension Fund receive Hewitt's quarterly active asset re-balancing proposals as produced by their Asset Allocation team at a cost of £30k per annum. This cost includes presenting these proposals at meetings of Pensions Committee.

11.2. The cost of the quarterly investment outlook updates should be more than

offset by additional performance returns made by the Fund by following an active asset re-balancing strategy.
12. Use of appendices /Tables and photographs 12.1. Appendix 1 - report by Hewitt.
13. Local Government (Access to Information) Act 1985 13.1 Update on Asset Allocation issues report and presentation by Hewitt to Pensions Committee on 29 January 2009.

Background

14.1 Pensions Committee on 30 April 2009 considered a report on Asset Allocation and agreed that:

- an active asset allocation rebalancing strategy be introduced on a quarterly basis;
- that the asset allocation review service be provided by Hewitt and that the budget be amended to reflect this;
- that decisions be delegated to the Chief Financial officer in consultation with the Chair of Pensions Committee, if any asset allocation changes need revising urgently in between quarterly meetings of Pensions Committee.

14.2 At the 18 June meeting of Pensions Committee, following consideration of Hewitts first quarterly Asset Allocation report it was agreed that a 2% switch be made from conventional gilts to corporate bonds. That switch (equivalent to £9.95m) was made on 6 August 2009 within Fidelity's fixed income portfolio.

14.3 The second Quarterly Asset Allocation report is appended from the Pension Fund's external investment advisors. This report gives an executive summary, quarterly investment outlook and a market update.

Quarterly Asset Allocation review

14.4 Hewitt's report shows the Fund's asset allocation and benchmark weightings as at 30 June 2009 as provided by the Custodian, Northern Trust. Summary numbers are as follows. The last column shows Hewitt's suggested range.

	Actual allocation as at 30/06/09 %	Benchmark %	Suggested range %
UK equities	27.1	30.5	25 – 30
Overseas equities	36.3	34.5	30 – 40
UK gilts	7.9	7.0	0 – 10
Index linked gilts	7.5	6.0	0 – 20
Corporate bonds	11.9	7.0	0 – 15
Private equity	1.9	5.0	2 – 5
Property	6.4	10.0	5 – 15
Cash	1.1	0	
Totals	**100**	**100.0**	

14.5 Hewitt assume that inflation will be lower for the next few years but in the longer term there is a risk of higher inflation scenarios due to the central banks maintenance of utra – easy monetary stances. Inflation risks and large gilt issuance make current yields unattractive. By comparison, although corporate bond spreads over gilts have declined, Hewitts' are of the view they still represent a more attractive investment compared to gilts. However, no further switches from gilts to corporate bonds are recommended at present. Opportunities to purchase property are anticipated for later this year.

14.6 The June market update shows that equity markets continued to rally across the world although investors have looked for the 'green shoots' of economic recovery since March. Hewitt's view is that a durable economic recovery based on growing household spending, and business investment is unlikely before next year.

14.7 Hewitt advise that:

- no changes be made in equities weightings until realistic profit margins are fully reflected in valuations;

- Corporate bonds are preferred to gilts but no further adjustments are recommended at this time;
- no changes are recommended for property at present although Hewitts' remain convinced that opportunities will come later in the year for ING to make active purchases. They will advise on opportunities at the appropriate time.
- the Fund's Private equity allocation should not be changed.

Conclusions

14.8 Hewitt have provided their latest Quarterly Asset Allocation review report as appended. The report makes recommendations to maintain the existing asset allocation at present.

14.9 Hewitt will attend Pensions Committee and give specific recommendations, if necessary after taking account of up to date market data.

APPENDIX 1

Asset Allocation Report - August 2009

London Borough of Haringey

20 August 2009

Prepared for

Pensions Committee

Prepared by

Hewitt Associates Limited

Hewitt Associates Limited
Registered in England No. 4396810
Registered office: 6 More London Place London SE1 2DA

Contents

Executive Summary

Investment Outlook

We expect an inventory rebound to encourage investors looking for green shoots, but a genuine economic recovery is not yet in the offing.

It is too soon to become enthusiastic over equity market prospects and we are not adding to equity weightings at this time. Emerging market and small cap equity outperformance is not justified.

Inflation should head lower for the next few years, reflecting abundant spare capacity. Further out, risks shift towards higher inflation.

Corporate bonds remain more attractive than gilts, even as spreads continue to tighten. Inflation and issuance concerns suggest a need for continued caution on fixed interest gilts.

Within alternatives, we continue to like hedge funds and also believe that transactions prices in property are now nearing their floor.

Asset Allocation and Fund Benchmark

The Fund's actual asset allocation and benchmark weightings as at 30 June 2009 (using information provided by Northern Trust) are shown in the table below:

	Value £m	Total %	Bmark %	Suggested Range
UK Equities	131.7	27.1	30.5	25 - 35
Overseas Equities	176.5	36.3	34.5	30 - 40
UK Gilts	38.6	7.9	7.0	0 - 10
Index Linked Gilts	36.6	7.5	6.0	0 - 20
Corporate Bonds	57.7	11.9	7.0	0 - 15
Private Equity	9.1	1.9	5.0	2 - 5
Property	30.9	6.4	10.0	5 - 15
Cash	5.3	1.1		
Total	486.4	100.0	100.0	-

What this means for the Fund

Equities – we are still of the view that realistic profit margins are not being fully reflected in equity valuations, and so we continue to recommend that no change is made to the equity weighting at this time.

Bonds – the Fund has recently implemented a 2% move from Gilts to Corporate Bonds. We see no need for any further adjustment at this time.

Property – we remain convinced that opportunities will come later in the year, at which time we would look for the underweight position in property to be closed through active purchases by ING. We will advise on the source of funds at the appropriate time.

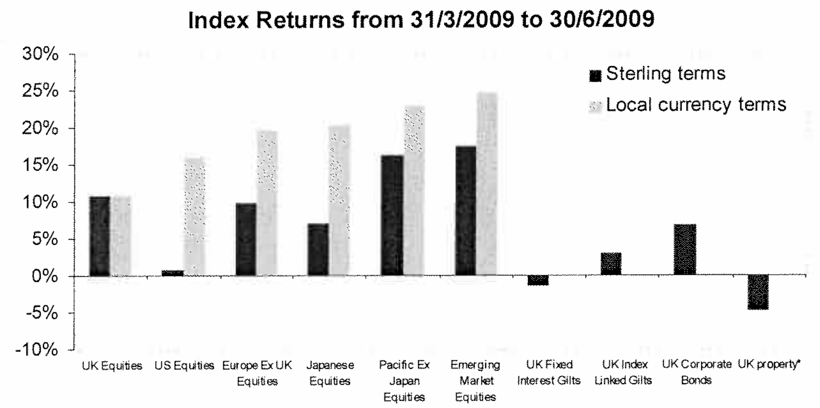
Private Equity – we do not believe that the Fund's private equity allocation should be increased at this time.

Quarterly Investment Outlook

Summary

- We expect an inventory rebound to encourage investors looking for green shoots, but a genuine economic recovery is not yet in the offing.
- It is too soon to become enthusiastic over equity market prospects and we are not adding to equity weightings at this time. Emerging market and small cap equity outperformance is not justified.
- Inflation should head lower for the next few years, reflecting abundant spare capacity. Further out, risks shift towards higher inflation.
- Corporate bonds remain more attractive than gilts, even as spreads continue to tighten. Inflation and issuance concerns suggest a need for continued caution on fixed interest gilts.
- Within alternatives, we continue to like hedge funds and also believe that transactions prices in property are now nearing their floor.

3 months to 30 June 2009



Source: Datastream/IPD

*Property return is 3 months to the end of May

Investors become much less risk averse

The strength in equity markets in March continued throughout April and May as encouraging economic indicators were released and as policymakers continued to be proactive in promoting growth. While there has subsequently been a small correction in equity markets, this has come later and from a higher level than we anticipated.

Other asset classes performed consistently with this less risk-averse attitude of investors: fixed interest gilts lost investors money, the safe haven Yen weakened and commodity prices rose sharply. The only exception was property, where illiquidity meant a lagging performance.

Inventory green shoots

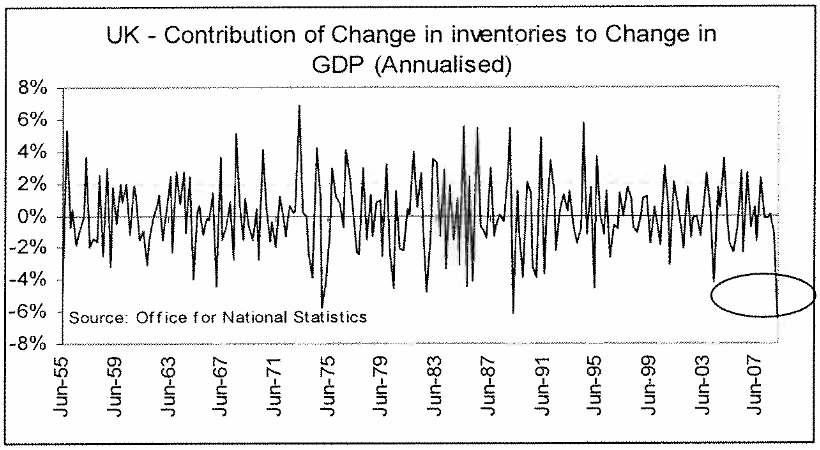
Investors have been on the lookout for 'green shoots' of economic recovery since March, when Ben Bernanke, the chairman of the US Federal Reserve, used the term to describe gradual improvement in US data.

Since then, a fair number of green shoots have been spotted in the US and elsewhere. However, this good news has been of the 'less negative' type, rather than positive signs of economic revival. More visible green shoots could soon be on the way. Fearing a collapse in demand, UK companies had slashed inventory around the turn of the year.

This resulted in a big hit to GDP growth, worse than that seen in the last recession of the early 1990s (see chart).

Now, as sales declines level out, inventories could be rebuilt. The magic of accounting for inventories, however, is that inventories could continue to be cut and economic growth would still be boosted, provided companies reduced them at a slower rate than before.

This boost to economic growth might reassure investors anxious for evidence of an economic rebound. The catch is that such restocking tends to only give a short-term boost to the economy before fading. Our view is that a durable economic recovery based on growing household spending and business investment is unlikely before next year.



Equities constrained by increased supply

Though the market rebound went over and beyond what we would have expected from a normal bear market rally, our view remains that we have not entered a new bull market.

NET SHARE ISSUANCE BY UK ENTITIES (£m, Bank of England data)

2005	2006	2007	2008	2009 to May
- 7,224	- 5,477	- 10,864	23,676	44,724

One factor which we believe will hold the market back is the supply of equity that is coming to the market. Banks have had to raise equity this year to boost regulatory capital ratios, but the increase in share issues is a broader trend.

UK equity market data shows that net equity issuance has turned sharply positive as companies are raising substantial new capital. This follows a period when the private equity boom and share buybacks had shrunk the amount of shares in issue (negative numbers for 2005-7 in table).

This increased supply of equity is likely to be a constraining factor on the market making further gains as it is not evident that demand for equities will rise in step with supply at higher market levels.

Emerging markets and small cap have run too hard

Economically sensitive emerging market and small cap equities have performed strongly in the equity market rebound. Emerging markets have recovered much of the ground lost in late 2008 supported by rising commodity prices and stronger economic data in China.

Our analysis, however, favours developed markets for the medium-term, based on the view that emerging market valuations suggest excessive optimism on how emerging economies and their companies will perform.

We also favour large capitalisation stocks over small.

Coming out of recession, small cap stocks have usually outperformed, but their relatively good performance throughout the recession now means that their valuation support is poor.

Not adding to equities

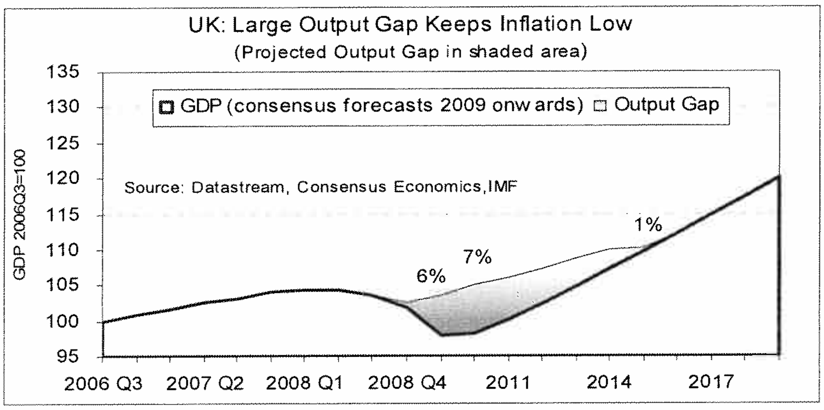
We remain on the sidelines in equities. The lack of strong valuation support in our models, our view that the compression of profit margins is incomplete and structural factors such as increased supply are behind our lack of enthusiasm.

We are alert to changes in market conditions that would move us towards taking a more positive 'buying' stance on equities, but at present, we are holding back from adding to equities. We anticipate opportunities to take a more positive view will arise in due course, at levels which should still be above the March market lows.

Inflation outlook particularly important

Inflation uncertainty has increased and is now having an important impact on all asset classes. Our research on the inflation outlook highlights strong pulls away from the moderate inflation path we have hitherto assumed.

Over the next two to three years, the extent of spare capacity opened up by the severity of the economic contraction suggests lower inflation. Output gaps, the difference between potential and actual output, are large, keeping inflation at bay (see chart). Underlying inflation could move towards zero in major economies.



Longer-term risk of higher inflation

Beyond the next few years, however, a pull towards the other extreme of significantly higher inflation is more likely. As economic recovery comes through, the large amounts of money that central banks have created will tend to feed through into the economy and push up inflation.

The inability or reluctance of central banks to exit their ultra-easy monetary stance in a timely way, at a time when politicians are more involved in economic policy, is the key risk to our long-term assumption of moderate inflation.

Corporate bonds preferred over gilts

Our view that risks are tilted towards higher inflation beyond the next few years suggests that investors in fixed interest gilts should demand a higher premium for bearing this additional risk. The climb in conventional gilt yields, despite large purchases by the Bank of England suggests that investors have indeed become more cautious.

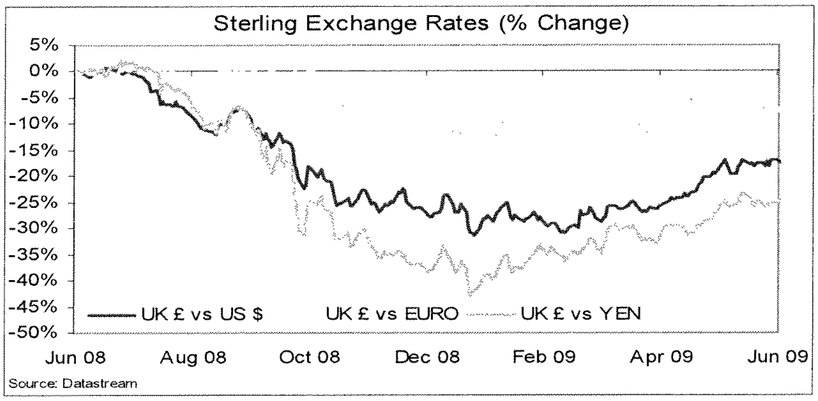
Inflation risks and large gilt issuance underpin our view that yields remain below our buying levels. Corporate bond spreads over gilts have declined sharply, but still leave corporate bonds looking attractive relative to gilts on our valuation approach.

However, the absolute attraction of corporate bonds is less attractive because the underlying gilt yields are not particularly appealing.

Sterling surges

Sterling rose sharply during the quarter, rising 15% against the dollar, but this must be seen in the context of the much sharper fall over the second half of 2008. Sterling's fall was driven by the loss of its traditional interest rate support, by a large external deficit and relatively high exposure to the weakening financial sector.

However, as we pointed out in December, by then the drags were either about to lessen or were priced in. Sterling surged once investors became less risk averse.



...and has gone far enough

Sterling is now close to the OECD's estimate of its long term purchasing power and with investors in our view somewhat ahead of themselves, we think a neutral stance on sterling is in order.

A mixed outlook in the "alternative investments" arena

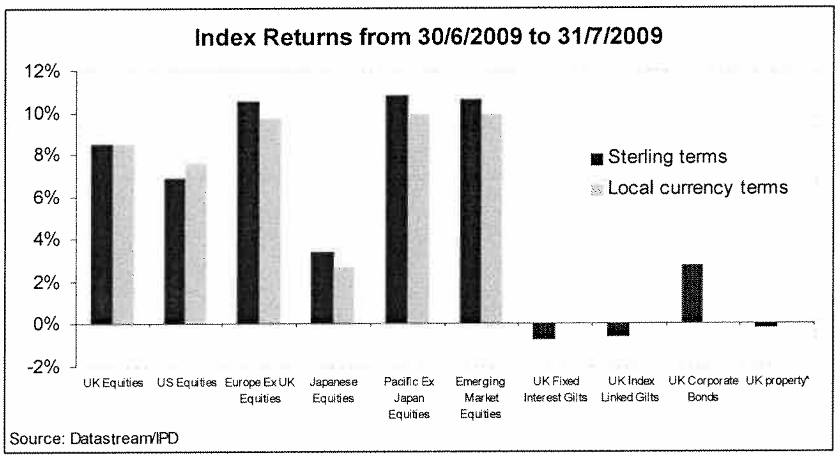
Turning to the so-called "alternative investments" arena:

Commodities performed very well, oil and copper prices rising 40% and 28%, respectively. However futures prices were well above spot prices, leading to a negative "roll return" (the return that results from rolling the current futures contract into the next one) and a smaller rise of 19% in the GSCI commodity total return index over this period. With this negative roll return still in place and the short term demand for commodities rather questionable, we believe it is premature to commit to this asset class.

Now that the massive redemption requests that hit hedge funds have largely been satisfied, we can expect a more normal steady sequence of returns. We remain positive on hedge funds.

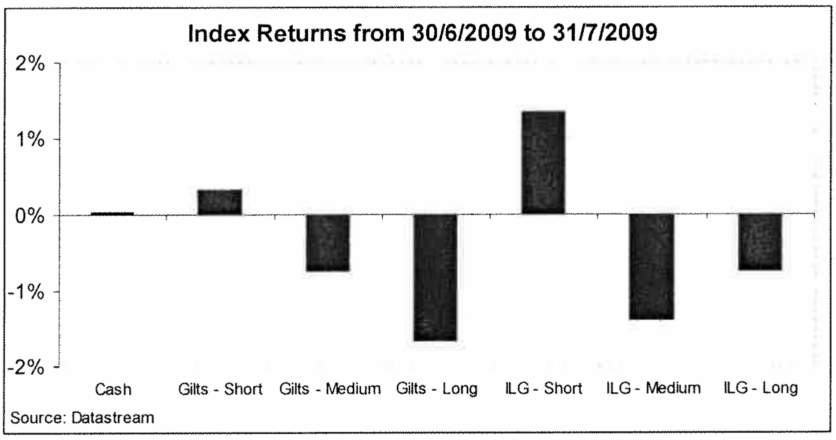
Property was the worst performing asset class. Its illiquidity and the valuation lag mean that true market prices are rarely reflected in indices. In our view, actual transaction prices should bottom later this year and we are suggesting to clients to get mandates lined up now to ensure timely investment. The Fund already has ING in place as property manager, and so the areas that need to be addressed are the timing and source of increasing funds for the manager, which we can advise on in due course.

July Market Update



Property relates to end of May 2009 to end of June 2009

- Equity markets across the world posted strong gains through the month. The best performance was in Emerging Markets, Japan lagged.
- Risky assets in general have performed well over the month on the back of a good start to earnings season and renewed economic optimism.
- Monetary policy continues to remain stimulatory but questions are beginning to surface over central banks exit strategies.



- Medium to long dated fixed interest gilt yields increased over the month, probably caused by investors returning to risky assets. Short dated conventional and index-linked gilts outperformed longer maturities.
- Property prices fell again in June (-0.2%), but the rate of decline in commercial property prices does appear to be slowing.
- Corporate Bonds returned 3% over the month as spreads continued to narrow. The spread on the Merrill Lynch Sterling Non-Gilt index decreased 60bps to 2.59% at the end of July.

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Haringey Council

Agenda item:

Pensions Committee	On 17/09/09

Report Title. **Fund Performance update**
Report of **The Chief Financial Officer** Signed :
Contact Officer : **Colin Duck – Corporate Finance** **Telephone 020 8489 3726**

Wards(s) affected: **All**	Report for: Noting

1. Purpose of the report

1.1. To consider the latest investment performance data for the Pensions Fund and for each of the Fund's investment managers.

1.2. To compare responsible investments information provided by our Fund Managers with that supplied by LAPFF.

1.3. To report 2009/10 budget monitoring to the end of July 2009.

2. Introduction by Cabinet Member

2.1 Not applicable.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1. Not applicable.

4. Recommendations

4.1 That the Fund performance position as at end of June 2009 be noted.

4.2 That responsible investments information provided be noted.

4.3 That the budget management position to the end of July 2009 (period 4) be noted.

5. Reason for recommendations

5.1. This report is for noting.

6. Other options considered

6.1. Not applicable.

7. Summary

7.1 The annualised performance of the combined Haringey fund has declined in absolute terms by 9.96% per cent up to 30 June 2009, underperformed the gross benchmark by 2.43% and also underperformed the gross target by 4.07%.

7.2 Overall performance this quarter is below both benchmark and target.

7.3 There has been a measure of volatility in the market over the past period but overall, markets have risen.

7.4 In overall terms the budget is on target.

8. Head of Legal Services Comments

8.1 The Head of Legal Services has been consulted on the content of this report. The consideration of this report falls within the duties on the Committee, acting for the Administering Authority, in reviewing investment performance generally and the performance of specific investment fund managers. Such a review must always take into account the interests of stakeholders and beneficiaries.

9. Equalities & Community Cohesion Comments

9.1. There are no equalities issues arising from this report.

10. Consultation

10.1. Not applicable.

11. Service Financial Comments

11.1 Performance of our Fund Managers continues to be carefully monitored in the current market conditions. Capital continue to under perform both the benchmark and the target.

11.2 In overall terms the budget is on target. The current surplus is being monitored carefully so that any net gain is invested at the appropriate time in line with the agreed investment strategy. The majority of the current years in-house surpluses are earmarked to fund private equity investments.

12. Use of appendices /Tables and photographs

12.1. Appendix 1 Top ten shares held and fund holdings.

12.2. Appendix 2 Fund performance to 30 June 2009.

12.3. Appendix 3 Responsible Investments (Top ten holdings).

12.4 Appendix 4 Responsible Investments (Other holdings).

12.5 Appendix 5 Budget management to end of July 2009.

13 Local Government (Access to Information) Act 1985

Northern Trust performance monitoring reports.

Fund performance update report to Pensions Committee on 18 June 2009.

14 Investment performance reported at the March meeting of Pensions Committee

14.1 The investment performance of the Pensions fund was last reported to Pensions Committee in June 2009. That report covered the period up to 31 March 2009, at which time the following points were noted:

- Since monitoring against the new benchmark commenced on 1 April 2007, the combined Haringey fund has declined in absolute terms by 13.60% per cent up to 31 March 2009, underperformed the gross benchmark by 2.27% and also underperformed the gross target by 3.91%.

- There has been continuous uncertainty in the market over the past period due to a number of issues. These principally concerning the timings and pace of economic recovery. These have impacted upon the performance of our portfolio and are still ongoing. Up to the end of March 2009 performance by our Fund Managers was as follows:

  - Bernstein's Global Equity and UK Equity mandates have underperformed the gross targets by 12.56% and 9.35% respectively.

  - Fidelity's Bond mandate under performed the gross target by 1.70% and the Equity mandate under performed the gross target by 1.02% but achieved the benchmark.

  - Capital's Equity and Bond mandates are below target by 3.54% and 2.54%

  - ING are below target by 0.91%.

15. Investment performance for the combined Fund updated for this quarter

15.1 The last performance update to Pensions Committee on 18 June 2009 reminded trustees that our new investment structure was largely implemented on 16 March 2007. Therefore, this report shows performance monitoring against the new benchmarks from 1 April 2007.

15.2 Performance of the combined Haringey fund compared to benchmark and target for the three months and annualised 27 months periods to end of June 2009 are shown below. The target is shown gross of Fund Managers fees and assumes that returns above benchmark are achieved evenly throughout the year.

	3 months to end of June 2009	27 months to end of June 2009 (annualised)
	%	%
Overall fund performance	5.80	(9.96)
Benchmark	6.65	(7.53)
Performance versus benchmark	**(0.85)**	**(2.43)**
Overall fund performance	(5.80)	(9.96)
Target	(7.06)	(5.89)
Performance versus target	**(1.26)**	**(4.07)**

15.3 This shows that in the 27 months period to June 2009:

- The annualised performance of the combined Haringey fund has decreased in absolute terms by 9.96%, the fund under performed the new benchmark by 2.43% and under performed the target by 4.07%;

- The annualised position has marginally deteriorated since that report to the last meeting with the under performance versus target increasing from (3.91) to (4.07).

15.4 Appendix 1 shows the following for the combined fund as at end of June 2009 and 2008 for comparative purposes: (1) top ten shares held and (2) fund holdings.

16. Fund Manager Performance

16.1 Appendix 2 shows for each Fund Manager investment performance to end of June 2009, compared to benchmarks and targets as supplied by our custodian, Northern Trust. This is the ninth quarter since the new benchmarks were introduced, consequently, we have limited historic data.

16.2 The performance targets for each Fund Manager's mandates are shown below. They denote the percentage annualised return above benchmark over a rolling 3 year period. The table also includes Investec and Record for completeness. The contract with Alliance Bernstein was terminated on 16 June 2009 and the resulting assets transferred to Legal and General and invested in tracker funds as previously agreed. Consequently, detailed performance data in respect of these two companies is not included in the information below.

16.3 We have had 21 calls on the Pantheon Asia and USA funds totalling £9.8 million to date and although performance numbers are included there are not considered meaningful as a significant proportion of the portfolio is yet to be invested.

16.4 Targets are set out in the table below and are gross of fees.

	% Target above benchmark	% actual annualised performance above/(below) benchmark in the 27 months to June 2009	% actual annualised performance above/(below) target in the 27 months to June 2009
Capital - equities	2.0	(1.66)	(3.66)
Capital - bonds	1.0	(1.35)	(2.35)
Fidelity - equities	1.7	0.67	(1.03)
Fidelity - bonds	0.6	0.11	(0.49)
ING	1.0	(0.72)	(1.72)
Pantheon – private equity	0.75	N/A	N/A
Investec – active currency	2	N/A	N/A
Record – active currency	2	N/A	N/A

16.5 The latest quarterly meetings took place on 29 July 2009 between each Fund Manager (excluding Pantheon – where meetings are held half yearly) and the Head of Finance – Budgeting, Projects & Treasury. A summary of the key issues discussed at those meetings is set out below.

16.5.1 **Legal and General**

- Performance to date.
- Future outlook for markets.
- Review of our Responsible Investment policy.

16.5.2 **Capital International**

- Performance to date.
- Future outlook for markets.
- Review of our Responsible Investment policy.

16.5.3 **Fidelity**

- Performance to date.
- Future outlook for markets.
- Responsible Investments.

16.5.4 **ING**

- Performance to date.
- Volatility in the property market and future estimated returns.
- Investment opportunities to become fully invested to increased property benchmark.

16.5.5 Up to the end of June 2009 performance by our Fund Managers in annualised terms was as follows:

- Capital's Equity and Bond mandates are below target by 3.66% and 2.35%.
- Fidelity's Equity and Bond mandates under performed the gross targets by 1.03% and 0.49% respectively, although both mandates have marginally exceeded their benchmarks.
- ING are below target by 1.72%.

17. Conclusions

17.1 Since monitoring against the new benchmark commenced on 1 April 2007, the annualised performance of the combined Haringey fund has declined in absolute terms by 9.96% per cent up to 30 June 2009, under performed the gross benchmark by 2.43% and also under performed the gross target by 4.07%.

17.2 Regarding our Fund Managers, Capital are under performing the most.

17.3 Although equity and bond returns have been positive in the last quarter there are a number of ongoing issues which are likely to impact on future performance, and we are monitoring the position carefully. These include:

- The paying down of household, corporate and sovereign debt;
- The price of oil and commodities
- The trends of inflation/deflation
- Interest rates; and,
- Property prices and rental values.

18. Responsible Investments

18.1 At Pensions Committee on 23 June 2008 a review of the Fund's Responsible Investment Policy was considered and agreed by Trustees. One of the recommendations was that officer's monitor the Fund Managers approach to the revised Responsible Investment Policy.

18.2 Appendix 3 and 4 compares responsible investments information provided by the Council's two core Fund Managers for the quarter ending 30 June 2009 with the information supplied by LAPFF over the same time period for the Fund's top ten holdings of shares (Appendix 3) and engagement with other companies (Appendix 4) Where LAPFF have raised issues in companies where Haringey do not own shares, then this information has been excluded. This comparison will be made each quarter going forward as part of this report.

19. Budget Management

19.1 The budget monitoring analysis to period 4 (end of July 2009) is attached in Appendix 5.

19.2 Significant variances to date are:

- transfer values paid £316k and received (£1.705m) where the volume will vary by year and timing within the year ;
- the amount of lump sums (£387k) paid vary by year and timing within the year;
- investment income £3.087m is dependent upon companies invested in by our Fund Managers;
- employer contributions £187k are dependent on the number and grades of staff transferring into and out of the scheme;
- investment management expenses (£488k) are influenced by the timing of receipt of invoices from Fund Managers and market values.

19.3 In overall terms the budget is on target. The current surplus is being monitored carefully so that any net gain is invested at the appropriate time in line with the agreed investment strategy. The majority of current year's in-house surpluses are earmarked to fund private equity investments.

20. Invested cash

20.1 Following the strategic review of the Fund in March 2007 trustees approved an increase in property holdings from 6%-10%. An amount of cash equivalent to that increased holding of £18m was invested in the money market pending the identification of suitable investment opportunities by the property manager ING. To date, £8.65m has been drawn down by ING to fund investments in both UK and European property funds. The balance of £9.35m remains invested in fixed term deposits of up to one year pending further cash calls from ING.

20.2 The downturn in the property market has impacted on the timing of future cash calls such that the mandate is unlikely to be fully funded until 2010.

20.3 The strategic review of March 2007 also recommended that cash generated annually from surplus contributions, equivalent to £10m p.a be earmarked to fund a new private equity mandate managed by Pantheon. In the year to March 2009 £6.35m was transferred directly to Pantheon to fund cash calls on the mandate. The uncalled balance of £3.35 was added to the brought forward cash surplus that was set aside in 2007 to fund the mandate. As at 30 June 2009 £13.15m is invested by the Council on the Fund's behalf in fixed term deposits pending cash calls by Pantheon.

20.4 The Council's standard risk protocols are applied to all investments made on behalf of the pension fund.

APPENDIX 1

TOP TEN SHARES HELD

	As at 30 June 2009			As at 30 June 2008		
Shares	Rank	Percentage of Equities	Market Value	Rank	Percentage of Equities	Market Value
		%	£'000		%	£'000
Shell 'B' Ord	1	0.70	2,157	1	3.68	13,920
Roche	2	0.69	2,137			
HSBC	3	0.67	2,083	6	1.24	4,689
BP	4	0.65	2,019	2	2.91	11,023
Vodafone	5	0.61	1,909	3	2.15	8,149
SMC	6	0.42	1,314			
NTT Docomo	7	0.42	1,297			
Astra Zeneca	8	0.38	1,188	9	0.94	3,560
Aviva	9	0.36	1,110	7	1.00	3,810
Shell 'A'	10	0.35	1,085			
Glaxosmithkline				4	1.88	7,132
Royal Bank Scotland				5	1.74	6,591
BAE Systems				8	0.97	3,682
Barclays				10	0.92	3,476

FUND HOLDINGS

	As at 30 June 2009		As at 30 June 2008	
Fund Holdings	Percentage of Fund	Market Value	Percentage of Fund	Market Value
	%	£'000	%	£'000
UK equities	5.1	26,194	20.4	117,900
Overseas equities	12.9	65,840	22.0	126,846
Pooled investment vehicles	63.8	324,534	40.4	233,494
Index-linked securities	3.2	16,156	1.2	6,826
Fixed interest securities	3.5	17,608	3.4	19,786
Cash	5.5	27,819	4.6	26,466
Property	6.1	30,870	8.0	46,143
Totals	100.00	509,021	100.00	577,461

APPENDIX 2

FUND PERFORMANCE TO 30 JUNE 2009

GROSS OF FEES

	Market valuations 31.03.08	Market valuations 31.03.09	Market valuations 30.06.09	Weighted % Fund change 1 April to 30 June 2009	% benchmark change 1 April to 30 June 2009	% target 1 April to 30 June 2009	**Under (-)/over (+) performance versus target April to 30 June 2009**	Weighted % Fund change 1 April 2007 to 30 June 2009	% benchmark change 1 April 2007 to 30 June 2009	% target 1 April 2007 to 30 June 2009	**Under (-)/over (+) annualised performance versus target 1 April 2007 to 30 June 2009**
	£'000	£'000	£'000	%	%	%	%	%	%	%	%
Capital -Equities	125,246	95,609	103,196	8.01	8.59	9.09	(1.08)	(10.28)	(8.62)	(6.62)	(3.66)
Capital -Fixed Income	62,451	63,111	64,957	2.92	2.84	3.09	(0.17)	2.40	3.75	4.75	(2.35)
Fidelity -Equities	126,566	98,171	107,149	8.40	8.31	8.74	(0.34)	(8.25)	(8.92)	(7.22)	(1.03)
Fidelity - Fixed Income	65,390	64,390	67,998	5.65	3.16	3.31	2.34	3.94	3.83	4.43	(0.49)
Bernstein -UK Equity	117,805	71,622	901	-	-		-	-	-	-	-
Bernstein -Global Equity	28,299	18,875	377	-	-		-	-	-	-	-
L & G-UK Equity	-	-	78,684	-	-			-	-	-	
L & G-Global Equity	-	-	19,936	-	-			-	-	-	
ING	51,505	36,000	34,053	(5.41)	(3.30)	(3.05)	(2.36)	(19.52)	(18.80)	(17.80)	(1.72)
Pantheon - private equity	2,719	11,509	9,270	(19.46)	6.65	7.40	(26.86)	N/A	N/A	N/A	N/A
Total	**579,981**	**459,287**	**486,521**	**5.80**	**6.65**	**7.06**	**(1.26)**	**(9.96)**	**(7.53)**	**(5.89)**	**(4.07)**
In house cash - earmarked for property	9,350	9,350	9,350								
In house cash - earmarked for private equity	9,500	9,500	13,150								
Other	544	4,154	1,007								
Total Fund	**599,375**	**482,291**	**510,028**								

Appendix 3 – Pension Fund Top Equity Ten Holdings – Responsible Investment Activity - Quarter ending 30 June 2009

Top Ten Holdings & Percentage of Total Fund	Fidelity – Details of Responsible Investment Engagement	Capital International – Details of Responsible Investment Engagement	LAPFF Engagement
1. Shell 'B' Ord (0.70%)	No specific details received but see note below.	Capital have reported that they have not undertaken any engagement on an environmental, social or governance basis in quarter 2.	No activity this quarter.
2. Roche (0.69%)	"	"	"
3. HSBC (0.67%)	"	"	"
4. BP (0.65%)	"	"	"
5. Vodafone (0.61%)	"	"	"
6. SMC (0.42%)	"	"	"
7. NTT Docomo (0.42%)	"	"	"
8. Astra Zeneca (0.38%)	"	"	"
9. Aviva (0.36%)	"	"	"
10. Shell'A' (0.35%)	"	"	"

Note:
Fidelity explain that their engagement with companies is channelled primarily through their team of equity analysts. This contact includes quarterly face-to-face meetings with the CEO or FD, monthly contact with the Investor Relations team, periodic site visits to see the company's operations and attendance at analyst days hosted by the company. Dialogue encompasses all aspects of a company's business including strategy, operations, trading, governance, shareholder rights, environmental and social policies. Where there is a divergence of views or a matter of particular importance arises, FIL's corporate finance team may become involved. Matters involving corporate finance might include board and management composition, corporate strategy, specific corporate transactions and legal matters. FIL's proxy voting function also forms part of the corporate finance team and has a particular focus on remuneration-related issues.

Appendix 4

Comparison of Responsible Investment Activity Quarter ending 30 June 2009 – Core Fund Managers and Local Authorities Pension Fund Forum (LAPFF)

Fidelity	Capital International	LAPFF
The Carbon Market During this quarter, Fidelity held discussions with **RWE** ,one of the most carbon-intensive power generators in Europe around finding ways the Company could lower its carbon intensity. **Renewable Power** During Q2 Fidelity continued to monitor the progress power utility companies are making are making in the generation of energy from renewable sources. Fidelity met with Verbund, a large hydro generator in Austria who have acquired a number of hydro power plants from E.ON. Fidelity see this as a positive move towards the expansion of Verbund's clean and efficient generation strategy in Europe.	**Tesco** Tesco found itself the recipient of a shareholder resolution at its AGM. A consortium of shareholders, led by Unite, proposed several initiatives related to corporate responsibility. They requested that Tesco develop key performance indicators to measure compliance with stated policies; that the company should better manage labour issues in its UK meat and poultry supply chain in order to eliminate discrimination; and finally that it should add one of its non-executive directors to its Corporate Responsibility Committee. Capital held a call with Tesco to discuss this. Their representative responded as follows: supplier issues was an industry issue and the conflict between agency and full-time staff are not only applicable to Tesco. These cases also related to other companies in the supply chain. They did not think that the appropriate way to deal with these issues was via	**M & S** In Q1 ,LAPFF filed a shareholder resolution.The resolution called for the M&S to do everything possible to appoint an independent chairman by July 2010. The role of Chairman and Chief Executive is currently filled by one person Sir Stuart Rose. The resolution was voted on at the company's AGM in July. 37.7% of shareholders voted in favour of the LAPFF resolution,with abstensions taking the total **not** supporting management to over 40%. LAPFF is now looking forward to an immediate dialogue with the company about how it plans to respond. LAPFF also intend canvassing the views of of other supporters of the resolution to elicit their views on the way forward.

Fidelity	Capital International	LAPFF
Sustainable Transport During Q2 Fidelity discussed the technological solutions to reducing CO_2 emissions with automakers BMW and Renault, including the use of hybrid vehicles, hydrogen fuel cells and the development of electric cars. Fidelity also met with automobile parts manufacturers Elrigklinger to examine strategies for reducing emissions including its development of diesel particulate filters and Andritz which is working on bio fuel projects. **Child & Illegal Labour** In Q2 Fidelity discussed supply chain issues with Associated British Foods(ABF) owners of Primark . This follows ABF identifying cases amongst its suppliers of the employment of child labour and migrant labour being employed at wage rates below minimum	an AGM resolution. The representatives argued that the proponents had provided no evidence of abuses. Tesco confirmed it had visited all of its suppliers to review conditions. We asked whether the non-executive director suggestion was being considered. Tesco agreed that this had been the most sensible suggestion from the proponents. Tesco felt all of its board should be jointly responsible for corporate responsibility, and if it appointed one director to be head of corporate responsibility it would result in excessive external pressure on that individual. Tesco said it preferred to keep the status quo. As the shareholder suggestions were presented as a single resolution for shareholders to vote on, it was not possible to support some aspects of the plan while opposing others. As we did not agree that all of the suggestions had merit we voted with management against the proposal. **Corporate Governance** **Telekom Austria** Capital learnt in April that Telekom Austria was planning to extend its authority to issue convertible shares.	**Governance reform** LAPFF will continue to push for governance reform following the current financial crisis and is continuing to undertake engagement with a number of financial institutions over issues such as remuneration and audit.

Fidelity	Capital International	LAPFF
levels. **Weapons Manufacturers** During Q2 Fidelity discussed with BAE Systems, Rolls Royce and Safran their economic and reputational exposure to products which may result in institutional divestment.	The company had an existing five-year authority, which was due to expire, to issue equity or convertibles. The authority allowed for the issuance of equity with a potential dilution of 20%, which would have been detrimental to shareholders. Capital did not feel the authority was necessary, and generally prefer such requests to be made to shareholders annually as opposed to multi-year terms. Following discussions with Capital's sector analyst and other investors, the company finally decided against extending the authority, and took the strong action of removing the entire resolution from the agenda. Capital held discussions with several French companies over items on their shareholder meeting agendas. Capital frequently vote against numerous proposals on French ballots due to high dilution of shares, excessive stock option plans, large contract severance packages and incentive schemes that have little or no disclosure of performance targets. Severance payments in particular have attracted a lot of attention this year, and shareholders have the	

Fidelity	Capital International	LAPFF
	opportunity to vote on agreements in place for individual executives. It is common in France for these “golden parachute ”payments to be worth two years ’annual cash compensation (salary and bonus). CGII commonly votes against these packages. Capital held discussions with **L’Oreal** and **Veolia Environment** prior to voting at their AGMs, to seek clarification and to provide feedback on resolutions that Capital would be unlikely to support. Capital also spoke with the French machinery firm **Vallourec** ahead of its AGM in May. We discussed the resolution to approve a severance payment to its company CEO, Philippe Crouzet. Vallourec was keen to secure shareholder support for the proposal as Riskmetrics—a key proxy service provider —recommended investors vote against it. We expressed our own concerns over the size of the severance package with the company. Their representatives were able to give Capital some assurances that the probable size of the payment would be much smaller than reported, and there were	

Fidelity	Capital International	LAPFF
	limitations on the inclusion of bonus and share awards. As a result of the conversation it was felt that the company had considered the points raised and Capital were able to support the proposal. Though the resolution was adopted, a significant 37% of votes were cast against it. Company meetings: In addition to the meetings recorded above, Capital engaged with a number of companies, including Standard Chartered, to review a range of governance issues. Companies that consulted Capital on proposed changes to their executive remuneration policies include Inchape, Cable & Wireless and Home Retail Group.	

APPENDIX 5

PENSIONS FUND

BUDGET MANAGEMENT - PERIOD 4 (END OF JULY 2009)

	2009/10 Budget £'000	Plan to period 4 £'000	Actual to period 4 £'000	Over/under (-) to Period 4 £'000	Explanations of variations
Income					
Contributions and benefits:					
Employee Contributions	(10,500)	(3,500)	(3,558)	(58)	
Employer Contributions	(34,700)	(11,566)	(11,379)	187	Dependent on number and grade of staff transferring into and out of scheme
Transfer Values Received	(4,000)	(1,333)	(3,038)	(1,705)	Volume and timing varies
Total income	**(49,200)**	**(16,399)**	**(17,975)**	**(1,576)**	
Expenditure:					
Pensions and other benefits	26,800	8,933	7,886	(1,047)	
Lump sums	3,500	1,166	779	(387)	Dependent upon the number of staff retiring and sums due.
Transfer values paid	4,000	1,333	1,649	316	Volume and timing varies
Refunds on contributions	50	17	1	(16)	
Administrative expenses	750	250	55	(195)	
Total expenditure	**35,100**	**11,699**	**10,370**	**(1,329)**	
Net addition from dealings with members	**(14,100)**	**(4,700)**	**(7,605)**	**(2,905)**	
Returns on Investment:					
Investment income	(18,300)	(6,100)	(3,013)	3,087	Dependent upon companies invested in by our Fund Managers.
Taxation	200	67		(67)	
Investment management expenses	3,600	1,200	712	(488)	Timing of receipt of Fund Managers invoices
Net return on investments	**(14,500)**	**(4,833)**	**(2,301)**	**2,532**	
Totals	**(28,600)**	**(9,533)**	**(9,906)**	**(373)**	

Haringey Council

Agenda item:

Pensions Committee **On 17 September 2009**

Report Title: **Consultation Draft: LGPS-Delivering Affordability, Viability and Fairness**	
Report of **The Chief Financial Officer** Signed :	
Contact Officer : **Colin Duck-Corporate Finance** **Telephone 020 8489 3731**	
Wards(s) affected: All	Report for: Non key decision

1. Purpose of the report

1.1 To formulate a response to the Consultation Draft

2. Introduction by Cabinet Member

2.1 Not applicable.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1. Not applicable

4. Recommendation

4.1 That a response to the Consultation exercise initiated by the Communities and Local Government Department be formulated.

5. Reason for recommendation

5.1. To determine a basis for responding to the Consultation exercise .

6. Other options considered

6.1. None.

7. Summary

7.1. The Communities and Local Government Department is seeking responses to a consultation exercise which is considering changes to the current methodology concerning Pension Fund solvency and funding. Changes to employee tariff's are also considered.

8. Head of Legal Services Comments

8.1 The Head of Legal Services has been consulted on the content of this report. There are no specific legal comments on the report other than a general comment that the Committee must act in the interests of the fund and its stakeholders in considering the consultation response and take appropriate advice from its financial advisers.

9. Equalities & Community Cohesion Comments

9.1. There are no equalities issues arising from this report.

10. Consultation

10.1 Not applicable.

11. Service Financial Comments

11.1. It is important to ensure that any changes to the funding methodology of the LGPS retain the principle of full funding and recognise the need to provide an equitable balance between employers, stakeholders and taxpayers.

12. Use of appendices /Tables and photographs

14.2 Appendix 1 Letter dated 25 June 2009 from Communities and Local Government setting out details of a consultation exercise.

14.3 Appendix 2 Response to the Consultation provided by the Council's Consulting Actuary Hymans Robertson

13. Local Government (Access to Information) Act 1985

Letter dated 25 June 2009 from Communities and Local Government

14 Introduction

14.1 The Secretary of State for Communities and Local Government (C & LG) has initiated a consultation exercise (Appendix A) to consider some possible amendments which initially focus, for reasons of scheme stability and viability, on the 2010 valuation exercise. The following is a summary of the proposals.

15 Scope of Consultation

15.1 The propositions principally focus on the important regulatory and operational relationships between the actuarial valuation exercise and the requirement of each LGPS administering authority to produce and maintain a Funding Strategy Statement.

15.2 In addition, proposals are included for a re-alignment of the employee member pension tariff, with particular emphasis on the contribution of higher paid members towards their pension benefits.

16 Current Public Service Pension Policy Context

16.1 The Government's overall commitment to public service pension provision is that schemes must remain affordable and sustainable in the long term, and be consistent with the principle of fairness for all tax payers and between generations.

17 Actuarial valuations and Funding Strategy Statements

17.1 Ministers are of the view that unless some adjustments are made to stabilise the treatment of scheme liabilities at the 2010 valuation and so mitigate any short term adverse impacts of the current economic recession on the scheme, the effect on members, employers and tax payers could be disproportionately significant in terms of increased costs which could be reflected in council tax bills from 1 April 2011.

17.2 At present the actuarial exercise and its attendant regulatory structures involving Funding Strategy Statements and Statements of Investment Principles are in place to protect tax payers interests through the efficient long term management of liabilities within a prudent regulatory framework.

17.3 Despite this regulatory stability and its interaction with funding strategies there remains the likelihood of an adverse 2010 valuation outcome. Ministers are of the view that a closer regulatory re-alignment between the two could be useful to counter any risks that might otherwise adversely affect employers costs and tax payers and hence the on going stability of the scheme. The following are proposed to stabilise future scheme costs arising from the 2010 valuation exercise.

18 A possible new approach to solvency

18.1 Comments are invited on a proposition that new contribution rates will be set at future valuations at a level that will ensure that over time sufficient monies are available to meet all employer liabilities.

18.2 At present shortfalls, or deficits are identified by pension actuaries by reference to 100% funding in the long term.

18.3 Stakeholders have expressed the view that a 100% target can be artificial and imposes significant short term pressures on employers during periods of economic downturn due to falling investment returns. In addition, it fails to take in to account the effect on employers who have to meet cost increases upfront.

18.4 The actuarially defined target of 100% funding creates the concept of a deficit whenever the valuation outcome drops below this figure. Consequently commentators misinterpret this event as creating an immediate cost penalty to tax payers. The essence of the proposition in the paper is to better reflect local funding dynamics. The paper draws a distinction between liquidity (a measure of the ability to pay pensions as they become due) and solvency (the capacity of scheme employers to meet the pensions promise). At present this becomes a target of 100% funding. The draft questions whether fund authorities need to build up what is tantamount to a financial reserve in the process of achieving that solvency level.

18.5 The proposition of a more flexible model to reflect the constitutional permanence of local government is raised. This would involve the introduction of a new Financing Plan underpinned by a completely new funding strategy and secondly, the establishment of funding targets locally by fund authorities within much of the existing funding and valuation framework.

19 Financing Plans

19.1 The first approach would mean that instead of fund authorities coming forward with full (100%) funding plans to make good all past service deficits, it is suggested that integral to the preparation of their funding Strategy Statements, each LGPS administering authority would additionally prepare and maintain a Financing Plan. This would demonstrate how over the short, medium and long term, they will fund pension liabilities for their fund and for each employer bodies.

19.2 A Financing Plan could include the following key components:

Base information
- Short to medium cash flow projections
- Actuarial estimate of long term funding needs
- Current funds and projected changes

- Key assumptions
- Risk management analysis
- Employing body contribution rates to provide sufficient resources to meet liability projections for the fund overall and for each employing body
- Certification of the plan by the fund officer responsible for the administration of the funds affairs and the appointed actuary
- Agreement to the Financing Plan by the authority's formal pension committee, after proper consultation with all interested parties.

19.3 Whilst the proposed Financing Plan would have the effect of removing the current actuarially set long term solvency test involving a 'deficit' funding approach it would, at the same time, introduce a funding regime based on a much shorter time frame. As a consequence it may be regarded by some commentators as being inconsistent with current funding best practice. In any event any move away from long term 100% funding targets must retain the confidence of all stakeholders in being able to meet its statutory- based pension promise.

20 Local Funding Targets

20.1 An alternative approach could involve retaining the existing scheme funding regime but additionally would allow an LGPS administering authority to adopt a long term funding target which would not always be set out 100%. Justification for less than 100% funding, including its sustainability, would need to be made within the published Funding Strategy Statement.

20.2 Although long term funding targets would remain the new adjustment is intended to ensure that any longer term funding shortfall would be recovered within a prudentially set and publicly accountable timescale.

20.3 It is not intended to give administering authorities unfettered power to set funding levels and employer contribution rates. The intention is for the normal pre and post valuation dialogue between administering authorities, fund actuaries, and other stakeholders to continue with the view to reaching an agreed funding position in the light of the valuation exercise

20.4 It is intended that the proposed regulatory changes will put beyond doubt that ultimately it is for each administering authority, and most importantly its elected committee members to have the final say on questions of affordability and sustainability and fairness to local tax payers, within the framework set by the scheme's regulations framework.

21 Next Steps

21.1 Consultees are invited to comment on both how a proposed financing plan approach could apply, when read in conjunction with the existing Statements of Investment Principles and Funding Strategy Statements, and also how to ensure that fund authorities are able to adopt favourable, short term positions consistent with their long term pension liability. Alternatively, consultees are invited to comment on whether there is merit in the other approach involving locally selected funding targets, also within the framework established by existing Funding Strategy Statements and Statements of Investment Principles. Responses are required by 30 September 2009.

22 **Views of the Council's Consulting Actuary**

22.1 The Council's consulting actuary Hymans Robertson has provided a response to the consultation exercise and this is attached as Appendix B. Hymans views may be summarised as follows:

- They support the concept of financing plans, including, a requirement for a risk assessment to be carried out, if these demonstrably improve transparency and governance. It is Hymans' view that this could be achieved within the existing regulatory framework through revised guidance on the Funding Strategy Statements rather than through new regulations;
- Hymans do not support local funding targets and note that these already exist because of the different methods and assumptions being used to place a value on the assets and liabilities of the LGPS;
- Hymans do not support the proposals relating to a revised contribution tariff for employees because contribution rates were revised as recently as 1 April 2008. Consequently, a further change at this stage could cause a disproportionate administrative burden and member confusion and may make it more difficult to recruit and retain members earnings over £100,000;
- Assets and liabilities of LGPS funds should be assessed and disclosed on a consistent basis to enable all stakeholders to validly compare different funding approaches;
- The funding framework must have an increased focus on the interaction between contributions and investment strategy and require a meaningful degree of risk assessment and disclosure of risks relating to employers who are not directly funded by tax payers and finally,
- Whatever measures are put in place to secure a satisfactory outcome from the 2010 valuation from a local authority/tax payer perspective, it must be clear

that they do not obviate the need to review the benefit structure to secure the longer- term affordability and sustainability of the Scheme.

23 Proposed basis of response to C & LG Consultation

23.1 Having carefully considered the points raised in C & LG's letter, and the response of the Council's Consulting Actuary, Hymans Robertson, a proposed response for Members to consider is as follows:

23.2 Whatever methodology is adopted in order to define and underpin the notion of solvency i.e. 'Financing Plans' and/or 'Local Funding Targets' the detailed procedures supporting any change must be clear. In the case of 'Local Funding Targets', C & LG' s letter could be interpreted, due to its lack of clarity, as a partial abandonment of the concept of full funding. Should this concept be conceded for matters of short term expediency (e.g. concerns about an adverse 2010 valuation outcome) a potential funding burden could fall on future generations of taxpayers/stake holders which could manifest itself in increased contributions and/or reduced scheme benefits.

23.3 By contrast, 'Financing Plans' (which would in effect be deficit recovery plans) would give greater emphasis and support to the existing governance structure of Statements of Investment Principles and Funding Strategy Statements.

23.4 Turning to the proposed Employee Contribution Tariff it is considered that it would be inappropriate to make the suggested changes at this juncture for the following reasons;

- overall employee contributions to the Scheme are not forecast to change ;
- the current tariff was introduced on 1 April 2008. A further change so soon is likely to cause an unnecessary administrative burden due to the number and complexity of the tariff bands: and
- no evidence is provided to assess the impact of the proposals on the future pattern of recruitment and retention of staff.

24 Recommendation

23.4 Members views are sought on the Consultation exercise in order that a response is made on behalf of the administering authority by 30 September 2009.

APPENDIX 1

T B J Crossley
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Workforce, Pay and Pensions
Local Government Finance Directorate
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25 June 2009

LGPS Stakeholders in
England and Wales
(Addressees attached)

Dear Colleague,

LOCAL GOVERNMENT PENSION SCHEME DELIVERING AFFORDABILITY, VIABILITY AND FAIRNESS

1. This informal consultation exercise begins a series of steps to consider some possible amendments which initially focus for reasons of Scheme stability and viability on the 2010 Scheme valuation exercise. A later, separate exercise, will consider new ways in which the LGPS could possibly be reformed to provide more workforce - focused provision pension for the 21st century.

2. Ministers wish to see the full engagement of all stakeholders in this particular exercise to secure a consensus quickly on a number of practical and reasonable amendments to the Scheme's regulatory framework to beneficially impact on the conduct and outcomes of the 2010 valuation and to assist in maintaining Scheme viability generally. A parallel, separate consultation exercise on the broader debate, announced when John Healey spoke at the NAPF Local Authority Conference on 19 May, about the longer term future of the Scheme, and how it might best respond to changes in the workplace, workforce and economy will issue shortly.

Background

3. The LGPS, as provided in England and Wales, is a statutory, public service, funded, occupational pension scheme which provides guaranteed pension benefits to local authority employees, and to employees of related and admitted employers.

4. The Scheme's local administering authorities pay benefits and manage its pension funds within the terms set out in secondary legislation made under the Superannuation Act 1972. A prudential regulatory framework provides Scheme pension fund administering authorities with all the necessary powers to manage and invest their pension funds. Investment income generated, as well as the operating and other costs incurred, is the responsibility of the appropriate LGPS administering authority; any surplus is available to reduce employers' liabilities and to re-invest within the authority's investment strategy.

5. At the 31 March 2007 triennial actuarial valuation, funds' total assets were valued at £132 billion with liabilities totalling £159 billion giving a shortfall between assets and liabilities of £27 billion, or a scheme-wide funding level of 83% (up from 74% in 2004).

6. The LGPS provides inflation-linked pension benefits based on a member's final salary at retirement and has some 3.7 million members. Stewardship, policy and regulatory responsibilities for the Scheme in England and Wales rest with the Secretary of State for Communities and Local Government.

7 A major Scheme reform saw the introduction from 1 April 2008 of a new-look LGPS including revised benefit terms. The Scheme's accrual rate was improved from 1/80ths to 1/60ths with the normal retirement age of 65 years being retained and new ill health provisions and other benefit adjustments within a fixed, agreed cost-envelope. Employees currently contribute between 5.5% and 7.5% of their pay on a set tariff which yields about 6.4% of total payroll. Employers' contributions, fixed until 31 March 2011, are adjusted following the triennial valuation of individual LGPS pension funds. Each individual pension fund authority is required to set an employers' level of contribution to ensure its fund is solvent and able to meet its existing and future liabilities.

Scope of consultation

8. This discussion document sets out initial suggestions for stakeholders to consider as a feasible and balanced response to the current stock market impacts on LGPS pension fund liabilities likely to be identified in the forthcoming 2010 valuation exercise. The propositions principally focus on the important regulatory and operational relationship between the actuarial valuation exercise and the requirement on each LGPS administering authority to produce and maintain a Funding Strategy Statement. It would be appropriate also to support the proposals with new advice to stakeholders on the issue of Scheme funding, cost stability and security.

9. In addition, and alongside the introduction of the new LGPS cost-sharing regime, this may be an opportune time also to consider a re-alignment of the employee member pension contribution tariff, and particularly the proportion of pensionable pay being contributed by higher paid members Towards their pension benefits.

10. Ministers wish to see an authoritative, evidence-based debate on a range of elements which fall within the Scheme's current framework. It is proposed to issue a paper shortly which sets out several policy themes for analysis and discussion by Scheme stakeholders about the possible future direction of the LGPS in the medium/ longer terms.

11. Both strands need, to be seen within the broad context of all public service pension schemes. Communities and Local Government remains in close touch with other relevant sponsoring Government Departments, as well as Scheme-specific stakeholders.

<u>Current public service pension policy context</u>

12. The Government's overall commitment to public service pension provision generally and for the Local Government Pension Scheme in England and Wales in particular, is that such schemes remain affordable and sustainable in the long term, be consistent with the principle of fairness for all taxpayers and between generations.

13. Ministers are on record regarding their intentions to ensure that the LGPS can continue to meet the needs of its stakeholders. Their policy for the Scheme is one based on affordable retention within the broad national policy parameters expressed above. At the same time, the guarantees that underpin such arrangements, supported by taxpayers, require the terms of the Scheme to be kept under review, to reflect best practice and continue to be fair and cost-effective in terms of the level of provision and the cost of delivery.

14. The provision of a good quality occupational pension provision is a key part of the total remuneration package of public servants. The Local Government Association see the LGPS as an essential component of the total reward package currently available to recruit, retain and to motivate local authority employees. The local authority trade unions take much the same view.

15. However, in providing any level of public sector benefit provision, it is acknowledged by stakeholders that it remains essential to ensure an equitable balance at all times between the full cost of providing LGPS benefits within that statutory, guaranteed framework, and the standard of the actual pension benefits provided by the Scheme for its membership.

16. In assessing the prospect of any possible regulatory changes to the LGPS in England and Wales, the Government wishes to continue to maintain a viable and affordable Scheme, one that caters for its current and future workforces' needs and which remains fair both to providers and beneficiaries, as well as to taxpayers who ultimately guarantee its pension promise.

Actuarial valuations and Funding Strategy Statements

17. The next LGPS actuarial valuation exercise in England and Wales, required by regulation 36 of the 2008 Administration regulations, takes place as at 31 March 2010. This event, along with the influences of each administering authority's Funding Strategy Statement and Statements of Investment Principles, will determine new rates of Scheme employer contributions from 1 April 2011 until 31 March 2014. The subsequent valuation takes place on 31 March 2013.

18. Many stakeholders believe that unless some adjustments are made to stabilise the treatment of scheme liabilities at the 2010 valuation, and so mitigate any short term adverse impacts of the current economic recession on the Scheme, the effect on members, employers and taxpayers could be disproportionately significant in terms of increased costs and so potentially council tax bills from 1 April 2011, notwithstanding the application of the new LGPS cost share / capping provisions.

19. The actuarial valuation exercise and its attendant regulatory structures involving Funding Strategy Statements and Statements of Investment Principles, are in place to protect taxpayers' interests through the efficient long term management of liabilities within a prudent regulatory framework. Regulation 36 (6)(b) of the LGPS Administration Regulations 2008 requires that contribution increases for employers in general, following each valuation exercise, should be set at as constant a rate as possible, and each LGPS administering authority engages with its actuary to determine how best to focus on the longer term funding plan each LGPS fund authority needs to achieve that position.

20. The 2010 valuation exercise will provide regulatory stability and discipline, and its interaction with funding strategies which continue to statutorily protect taxpayers, and guarantee the pension promise for Scheme members. Nevertheless, there remains the likelihood of an adverse 2010 outcome. Ministers believe that a closer regulatory realignment, therefore, between the two could be useful to counter any risks that might otherwise adversely affect employers costs and taxpayers and the on-going stability of the Scheme.

21. The following paragraphs explore steps to stabilise future Scheme costs arising from the 2010 valuation exercise. The propositions draw on the outcome of views expressed by key national stakeholders in recent discussions. Liaison will continue with the interested parties over the coming months, particularly on the details of actual proposals and any necessary guidance, including the involvement of the LGPS Policy Review Group.

A possible new approach to solvency

22. Consultees are invited to comment on a proposition involving an amendment to the Scheme regulations, which already include a specific (but undefined) solvency requirement (Regulation 36(5) of the 2008 Administration Regulations), and modify it with a provision which requires each fund's actuary, first to take full account of the affordability of employers' liabilities to pay pensions and to meet liabilities when undertaking three-yearly fund actuarial valuations and, second, to ensure consistency with an administering authority's funding objectives as set out in its Funding Strategy Statement.

23. In practice, this will result in new employer contribution rates being set at each valuation at such a level as to ensure that, over time, sufficient monies are available as required to meet all employers' liabilities.

24. Although a shortfall or deficit may be identified by individual fund valuations, it appears to be the case across the Scheme that contribution rates are set by pension actuaries, for each triennial valuation period, to ensure that the fund will be able to meet its pensions promise by achieving 100% funding in the long term, to meet the funding strategy set by the administering authority.

25. Stakeholders have mentioned in recent discussions that a uniform 100% funding target can become artificial and impose significant short term cost pressures on employers during times of economic downturn and falling investment returns. It fails also to take into account the effect on employers' who have to meet cost increases up front, and over the short term, when in every case this is far from justified.

26. For the LGPS, the effect has implications for council tax payers, particularly in the current economic recession. Measuring the Scheme, therefore, against an actuarially-defined notional 100% funding target automatically creates the concept of a deficit-event whenever the funding ratio falls below 100%. This is frequently misinterpreted by commentators as creating an immediate, and global cost penalty for council tax payers. The essence of the proposition in this paper, therefore, is to consider better reflecting in the regulations the actual local funding dynamics of the Scheme and to remove the opportunity for any negative interpretations which can fail to understand the Scheme's inherent funding disciplines and its protections for taxpayers and members, along side its regulatory permanence.

27. Although liquidity is a measure of the ability to pay pensions as they become due, solvency is concerned with the capacity and status of scheme employers to meet the pensions promise. That means having sufficient assets to meet all future pension liabilities. At present, this test often becomes a target of 100% funding but, given the strong liquidity of the Scheme, the constitutional permanence of local government and a strong employers' covenant, it is questionable whether fund authorities need to build up what, in effect, amounts to a financial reserve in the process of achieving that solvency level.

28. Clearly, a financial reserve and investment assets, are needed to meet short-term liquidity requirements but, equally, setting employer contribution rates at a level to achieve long term funding targets can be considered to be a blunt instrument which imposes unrealistic and burdensome short/medium term costs on scheme employers, and, potentially, council taxpayers.

29. Looking ahead, therefore, a more flexible model might be appropriate, to better reflect the individual circumstances of each pension fund authority and which takes full account of the long term constitutional permanence of local government, its employer covenant and its statutory basis. In informal discussions with stakeholders, two separate sets of proposals have emerged. First, involving the introduction of a new Financing Plan underpinned by a completely new funding strategy and secondly, the establishment of funding targets set locally by fund authorities within much of the existing funding and valuation framework.

Financing Plans

30. The first approach would mean that, instead of fund authorities coming forward with full (100%) funding recovery plans to make good all past service deficits, it is suggested that, integral to the preparation of their Funding Strategy Statements, each LGPS administering authority could additionally prepare and maintain a Financing Plan to demonstrate how over the short, medium and then long term, they will fund pension liabilities for their fund and for each of its employer bodies. The Financing Plan would detail and determine local future income streams and how it is proposed to manage the funding of long term liabilities, demonstrating that it has taken a prudent approach, based always on reasonable, realisable assumptions and qualified professional advice. It would also take into account local budgetary constraints and recognise the reality of local resource and other parameters within which each fund must operate.

31. A Financing Plan could include the following key components and these could, in due course, be reflected in the regulations, or in authoritative guidance: -

- base information :-
  - short to medium cash flow projections
  - actuarial estimate of long term funding needs
  - current funds and projected changes
- key assumptions
- risk management analysis
- employing body contribution rates to provide sufficient resources to meet the liability projections for the fund overall and each employing body
- certification of the plan by the fund officer responsible for the administration of the fund's affairs and the appointed actuary

- agreement to the Financing Plan by the authority's formal pension committee, after proper consultation with all interested parties.

32. This approach would require formal amendments to the Scheme's regulations to require the preparation and inclusion of new Financing Plans, within an amended Funding Strategy Statement, no later than 1 October 2010 or another date following the 2010 valuation, and no later than six months after the valuation date specified. This is intended to ensure that strategic decisions taken by individual local administering authorities on funding and contribution levels are prudent and viable, locally transparent and capable of delivering secure, guaranteed payments alongside regular monitoring. It would provide a clear regulatory-based timetable over which individual LGPS funds can meet their own, locally adopted, prudently funded and financed payment plans.

33. However, the Department is mindful that the proposed Financing Plan, whilst having the effect of removing the current actuarially-set long term solvency test involving a "deficit funding" approach, would, at the same time, introduce a funding regime based on a much shorter time frame which may be regarded by some commentators as being inconsistent with current funding best practice. Although the policy aim would be to stabilise pension costs going forward at the same time as moving away from rigid, long term 100% funding targets, it is equally important that the Scheme retains the confidence of all stakeholders in being able to meet its statutory-based pension promise. No changes are envisaged to the Scheme regulations which currently require specific provisions to set employers` contributions to retain a constancy which eliminates any possibility of contributions being reduced and continues to ensure stability.

Local Funding Targets

34. An alternative approach could involve essentially retaining the existing Scheme funding regime but additionally would allow an LGPS administering authority to adopt a long-term funding target which would not necessarily always be set at 100%, provided this could be sustained and transparently justified by the pension fund administering authority within its published Funding Strategy Statement.

35. Long term funding targets would, therefore, continue to be an essential feature of the Funding Strategy Statement, as indeed would deficit recovery plans over a locally chosen period. This new adjustment could ensure that any longer-term funding shortfall could be recovered within a prudentially-set, and publically accountable timescale. It stabilises pension costs going forward, without losing sight of the fact that the Scheme must meet its statutory pension promise.

36. This does not mean that LGPS administering authorities are to be given unfettered powers to set funding levels and employer contribution rates. That would be to deny the prudentially critical role of the valuation and subsequent actions by the administering authority. The intention rather is for the normal pre-and post-valuation dialogue between administering authorities, fund actuaries, and other stakeholders to continue with the view to reaching an agreed funding position in the light of the valuation exercise outcome. However, the proposed regulatory changes would put beyond doubt that ultimately it is for each locally administering authority, and most importantly its elected committee members, to have the final say on questions of affordability and sustainability and fairness to local taxpayers, within the framework set by the Scheme's regulatory framework.

Next steps

37. Discussions with stakeholders are being arranged to consider the merits of these possible new arrangements which could then be carried forward into draft amending regulations to be issued later in the year as a statutory consultation. Detailed guidance could be prepared with the assistance of CIPFA, to help LGPS authorities prepare for any regulatory changes.

38. Consultees are therefore invited to comment on both how a proposed financing plan approach could apply, when read in conjunction with the existing Statements of Investment Principles and Funding Strategy Statements, and also how to ensure that fund authorities are able to adopt favourable short term positions consistent with their long term pension liabilities. Alternatively, consultees are invited to comment on whether there is merit in the other approach involving locally selected funding targets, also within the framework established by existing Funding Strategy Statements and Statements of Investment Principles.

A Revised Employee Contribution Tariff

39. A proposition is also being considered to amend the existing LGPS tariff which set the level of employee contributions linked to their pensionable pay, with new, higher tariffs for members who annually earn in excess, say, of £75,000, together with an extension of the lower rate of contributions for the lower paid.

40. The new LGPS Scheme introduced on 1st April 2008 included a new banded contribution arrangement with a top level of 7.5% of pensionable pay for those whose earnings are in excess £75,000. However, it is now believed that there are many high earners in the local government workforce who are paying a proportionately modest amount towards their pension benefits.

At the same time, given the very high proportion of part-time employees in the Scheme, it is seems equitable to re-consider the extent, in tariff terms, of the lower rate of 5.5% of pensionable pay. This latter step should directly help to recruit and retain membership of lower paid employees into the Scheme who, according to recent UNISON research, find the costs of membership prohibitive.

41. An example of the scope of a possible future regulatory amendment is illustrated below. Under this example, members earning over £110,000 per year could pay a contribution rate of 10% of pay, and those below in the next band (earning over £75,000) a rate of 8.5%. Meanwhile, many members earning less than £22,001 p.a. would benefit from a lower rate. The table is illustrative at this stage and does not represent any firm commitment by Ministers.

42. Those earning between £30,001 to £75,000 per year would also have to contribute more: +0.2% or +0.3%, to avoid "cliff edge" increases in contributions within the tariff.

43. Subject to the outcome of any statutory consultation the new contribution tariff could take effect from 1 April 2010.

Table 1 – Possible New Contribution Tariff

Band	Pay Range (pay per year)	New Contribution Rate	Difference from current LGPS rate
1	£0 - £15,000	5.5%	No change for members earning up to £12,000 per year -0.3% for members earning from £12,001 to £14,000
2a	£15,001 to £18,000	6.0%	+ 0.1% This apparent anomaly is justified by the significant reduction in rate for Band 3 below
2b	**£18,001 to £22,000**	6.0%	**-0.5%**
3	£22,001 to £30,000	6.5%	No change
4	£30,001 to £40,000	7.0%	+0.2%
5	£40,001 to £75,000	7.5%	+0.3%
6	**£75,001 to £100,000**	8.5%	**+1.0%**
7	**£110,001+**	10.0%	**+2.5%**
Yield = 6.42% of payroll			

Responses

44. Consultees are invited to respond to this informal consultation exercise no later, please, than 30 September and preferably by the middle of September, if this is at all possible. The LGPS Policy Review Group will be considering the paper in the course of its deliberations.

45. Responses should be sent to Richard McDonagh at the above address, Zone 5/F6, or e-mail to richard.mcdonagh@communities.gsi.gov.uk. Telephone for enquiries is 020 7944 4730.

46. If any consultees would like to meet to discuss the propositions in detail and any other matter which stems from this exercise, could they please contact Diana Abelson at diana.abelson@communities.gsi.gov.uk or by telephone on 020 7944 5971, to make the necessary arrangements.

Yours sincerely

Terry Crossley.

TBJ Crossley

ADDRESSEES

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

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

The Secretaries of:
- Local Government Association
- LGPC
- Employers' Organisation for Local Government (LGE)
- PPMA
- CIPFA

- Society of County Treasurers
- Society of District Council Treasurers
- Society of Welsh Treasurers
- Society of Metropolitan Treasurers
- Society of London Treasurers
- Association of Consulting Actuaries
- Association of London Councils

Trades Union Congress
UNISON
GMB/
UCATT
Aspect
Unite
NAPO

CIPFA
Audit Commission

APPENDIX 2

HYMANS ROBERTSON

Local Government Pension Scheme, Delivering Affordability, Viability and Fairness

Hymans Robertson's response to CLG's consultation on funding

This is Hymans Robertson LLP's response to the consultation paper issued by CLG on 25 June 2009.

Securing the long-term sustainability and affordability of the LGPS is vital. Neither the new LGPS in England and Wales, introduced from 1 April 2008, nor the proposed cost sharing measures to be effective from 1 April 2010, are sufficient to achieve this. We therefore welcome CLG's review of the LGPS in England and Wales. This document sets out our views on the first stage in the review, which relates to the near term, in particular the forthcoming triennial valuation of the Scheme.

We know how concerned our LGPS fund clients are about the outcome from the 2010 valuations and that current budgetary constraints mean that council tax must rise or services be cut (neither of which is politically acceptable) if there are further substantial increases in pension contributions. Over the last 18 months, we have been working with clients to determine how to approach funding strategy in today's challenging economic environment. We are confident that local authority pension contributions can be maintained at affordable levels following the 2010 valuations, within the current regulatory framework. **Our immediate reaction is therefore that no regulatory changes are required to ensure stability of local authority contributions following the 2010 valuations.** However, as the leading provider of actuarial services to the LGPS, we believe that we have a responsibility to help ensure all LGPS funds make informed decisions that best suit their circumstances. We have therefore deliberately taken a positive approach to the consultation where it supports administering authorities in making informed decisions. We also firmly believe that checks and balances need to apply to the setting of the contribution strategy. Our response to the funding consultation should be considered in that context.

The Broader Context: Funding Principles

Before commenting on CLG's consultation, it is worth setting out what we believe should underlie the regulatory framework for the funding of the LGPS:

1. Maintain a Funded Approach

The LGPS must retain the ambition of full funding. The public sector unfunded model is arguably broken with some of the schemes requiring a regular top-up from Treasury to balance the books. This situation has arisen because of demographic changes and a failure to recognise increasing pension costs in employer contributions. It has now caught the imagination of many commentators and we believe that it would be very damaging to the reputation of the LGPS if it were allowed to become wholly or partly unfunded. This would transfer an even greater burden onto future government finances (and taxpayers) at a time when benefit payments across the LGPS in England are already rising faster than contributions[1] due to the changing profile of the membership, leading to further inequity between generations of taxpayers.

[1] Based on CLG's own statistics, in percentage terms - benefit expenditure rose by 10% from £4.8bn in 2006/07 to £5.2bn in 2007/08 compared to an 8% rise in contributions from £6.2bn in 2006/07 to £6.7bn in 2007/08

If employer contribution rates are held reasonably stable and local government employment does not grow significantly, it is conceivable that benefit expenditure will exceed contribution income within 10 years. This significantly weakens the "liquidity" argument for making the scheme unfunded or partially funded. It supports our view that the funded status of the scheme with a 100% solvency target must be maintained.

2. Maintain a Long-Term Focus

We believe that it is possible to manage the outcome of the 2010 valuations to the satisfaction of local authorities and CLG, i.e. by setting employer contributions for local authorities which are not materially changed from current levels. However, in order to do so, the funding framework must be based on long-term principles. It is not desirable to adopt a short term approach to the setting of contribution rates (i.e. increasing the rates substantially) because of near term financial conditions. This is particularly true if we consider the immediate impact that would have on front line services. Conversely, it is not possible to continually adopt short-term measures at successive valuations as a means of obscuring the longer term issue: the increasing cost of the benefits due to longer life expectancy and lower real interest rates.

Irrespective of the outcome of this consultation on the forthcoming valuation, CLG must address the cost of the scheme and take forward the benefit design phase of the consultation to secure the long-term sustainability of the scheme.

3. Require Consistent Measurement

A valid comparison of funding levels and contribution rates across funds can only achieved by comparing results on a consistent basis of measurement. LGPS funds cannot currently measure themselves against their peers, because of the inconsistency of the actuarial bases and pace of funding. A conservatively managed scheme with a faster pace of funding may be in much better financial health than a scheme using less prudent assumptions; but simple peer group comparison using inconsistent bases may show the opposite. We understand that GAD produces a review of funding bases for CLG; however, this is not currently published and hence does not help funds understand their relative position. We are not advocating a common funding basis; the level of contributions and pace of funding will still be set locally. However, the requirement to report on a prescribed benchmark basis would enable administering authorities, employers and other stakeholders to assess the relative reliance of individual schemes' contribution strategies on aspects such as future investment returns

In the interests of transparency and to assist in risk assessment, the funding framework should require disclosure of assets and liabilities on a consistent prescribed basis across the LGPS[2], as well as on each fund's individual funding basis.

4. Require a Robust Risk Assessment

Scheme benefits are funded through a combination of contributions and investment returns. Traditional actuarial techniques place a single value on pension scheme liabilities and compare this to the value of assets to measure a scheme's solvency. The weakness of this approach is that it does not measure how likely it is that the fund will have sufficient assets to meet its future benefit promises.

[2] It is not essential, or even desirable, for the bases to be identical, as long as the key assumptions, i.e. the financial assumptions and post-retirement longevity assumptions are the same.

The approach which we are proposing to use for the 2010 valuations (and beyond) begins with applying the traditional approach to deliver objective measurement of the financial health of the fund. Crucially, however, it then combines this with a stochastic risk assessment which considers how the financial position of the fund may develop under a range of different possible outcomes; and gives an indication of how likely it is that the fund will return to full funding over various time periods. We believe that this type of risk-based approach will become best practice in the private sector and should be embraced by the LGPS. This also adds to the confidence that administering authorities can have when considering the risks inherent in their contribution strategy and pace of funding.

Greater analysis of funding and investment risks should be required as an integral part of the development of funding strategy. This will ensure funds fully understand the potential implications of their decisions and should ensure better decision-making.

5. Recognise the Multi-Employer Nature of the Scheme

Whilst local authority employers may account for the majority of LGPS assets and liabilities there are many other employers which participate in the scheme, whose characteristics are very different from local authorities in terms of their time horizon and security of covenant. CLG's consultation is devoid of detail (perhaps deliberately) on how admission bodies and other shorter-term or less secure employers should be dealt with.

Any change in the funding framework in which LGPS funds operate must permit, perhaps even require, an approach which is sufficiently flexible to cater for the different circumstances of different employers. Further, bodies which are funded by tax-payers must be required to quantify the level of their exposure to funding risks in relation to the pension benefits of other employers.

6. Distinguish Cost and Contributions

In our view a valid criticism of public sector pensions policy is that all too often policymakers misinterpret the relatively low employer contribution rates payable in public sector schemes (relative to rates payable in private sector schemes providing comparable benefits) as reflecting a lower cost of benefits. The lower rates are not a reflection of benefit cost; they largely reflect the fact that private sector schemes are addressing the cost of benefits at a faster pace than in the public sector. Administering authorities and CLG must appreciate the distinction between the contributions payable by employers and the cost of the benefits: paying a lower contribution rate, (at least for now) does not make the benefits cheaper to provide!

This distinction could be better reflected by requiring funds to consider explicitly how variable pension costs might be and how the contribution strategy deals with that variability as part of the valuation process. For example, the analysis could consider the effect of investment returns or life expectancy which were higher or lower than the valuation assumptions.

Specific Comments on the Consultation

Liquidity v solvency

Whilst the positive cashflows which generally characterise LGPS funds have proved beneficial in the current economic climate since funds have not been forced sellers of assets whose prices have plummeted, we are concerned at the consultation paper's suggestion that this liquidity is a justifiable reason for softening funding targets. In particular, the use of language such as it being "questionable whether fund authorities need to build up.... a financial reserve" worries us, appearing as it does, to question the very structure of the LGPS as a funded arrangement. The principle of a funded arrangement is to pay for benefits as they accrue, in contrast to unfunded arrangements where benefits are paid from revenue and there inevitably comes a point where the scheme becomes unsustainable without significant additional funding/contributions. Whilst the unfunded public sector schemes may appear to be more affordable this is merely a function of the opaque way in which their costs are accounted for and it would be a travesty if the LGPS were to abandon the funded model that has hitherto served it so well.

Financing Plans

Trustees in the private sector are currently required to produce a statement of funding principles and, if the scheme is in deficit, a separate recovery plan detailing how the trustees and sponsor plan to achieve full funding and the period over which they aim for this to be achieved. It is not clear from the consultation paper whether the suggested financing plans would perform the same function as the recovery plan in the private sector, but, on the face of it, the proposals seem sensible. In particular, we support the suggestion that a financing plan could include projections of benefit cashflows and asset information and would suggest that these cashflow projections include information on the chance of particular outcomes occurring, rather than simply illustrating a number of potential scenarios with no information on how likely those scenarios are. We are also very supportive of any proposals to incorporate risk management analysis within the financing plan, although this could be achieved through the existing funding strategy statement, with updated guidance on the content of these statements..

One potential drawback of the proposed financing plan is the potentially limited extent to which it could allow for the specific circumstances of individual employers. To rectify this, we would suggest that asset and liability projections be included within the financing plan for the following groups of employers, in addition to reporting at a whole fund level as suggested in the consultation document:

- local authorities and government sponsored bodies (this could be extended to include all scheduled bodies);
- transferee admission bodies and community admission bodies with a guarantor;
- admission bodies with no guarantor or other security; and
- former employers (i.e. assets and liabilities which are effectively "orphaned" within the fund),

where the projections would be over a period or periods which are reflective of the likely future period of participation of the group of employers.

In order to ensure that financing plans are good quality, helpful documents and that there is consistency between funds, we would propose that any regulatory requirements are supplemented by guidance, such as that produced by CIPFA on the funding strategy statements.

In addition to disclosing the valuation results on the funding basis, we would also propose that funds be required to disclose the funding level on a consistent basis to enable the level of prudence adopted by different funds to be readily compared. This funding level need not be used to determine the fund's solvency measure or employer contribution rates but would instead act as a limit on the extent to which funds subjugate prudence and solvency in favour of affordability and stability.

Any requirements to draw up a financing plan must improve transparency of funding and the valuation process, demonstrably contributing to good governance in the LGPS. They must not simply be used as a short-term fix to permit infinitely long deficit recovery periods and hence ensure an acceptable outcome for the 2010 valuations.

Local Funding Targets

Representatives from CLG have made it very clear that the suggestion of local funding targets is not in any way a return to the 75% funding regime which was introduced alongside the community charge in the 1980s. It is unfortunate, however, that on reading the consultation document, this subtlety passed many people by, including us. Irrespective of CLG's clarification, it seems to us that such an approach will inevitably lead to accusations of softening funding bases and to the LGPS being subject to many of the same criticisms of a lack of objective assessment of cost that are currently made of the unfunded schemes. For this reason alone we would reject the concept of a local funding target that does not necessarily aim to have sufficient assets to meet promised benefit payments.

We would also note that local funding targets already exist since there are a variety of different methods and assumptions being used to place a value on the assets and liabilities of LGPS funds, leading to very different solvency targets. We are concerned that these differences are not understood by the funds themselves. Further, we believe that it would be very helpful for all funds to publish their funding level on a consistent basis to help measure the degree of prudence within the bases adopted. We are aware that CLG currently commissions the Government Actuary's Department to undertake an audit of valuation bases, and it would be helpful if this were published. Although there are valuation surveys undertaken by interested parties, such as the Society of County Treasurers, these are skewed by the different bases adopted and do not cover all LGPS funds. We therefore believe that it would be beneficial to the funds themselves, if they were able benchmark their own position against their peers on a like-for-like basis. Although not within CLG's remit, we believe that it would also be helpful for the other public sector schemes to report their liabilities on the same basis. We would also note that, in the private sector, the Pensions Regulator assesses the valuation bases adopted by trustees and investigates any which it considers to be inadequate.

Given the public and media interest in public sector pensions and the need to demonstrate good governance and transparency of funding, a comparison of funding approaches, assessed using a consistent basis, should be published. Further, CLG should consider whether its role should more closely mirror that of the Regulator in the private sector. There is also a strong argument for extending this to other public sector schemes.

Employee contribution rates

The consultation paper suggests an amendment to the employee contribution rate tariffs introduced from 1 April 2008 to increase the percentage of pay rates for those earning above £30,000 per annum and to reduce the rates for the lower paid. We understand that the rationale for this is to make the scheme fairer for the lower paid, many of whom currently opt out of the scheme. Total employee contributions to the scheme are not intended to change.

We are not supportive of the proposed amendments for the following reasons:

- further changes so soon after the recent changes are likely to cause disproportionate administrative headaches and member confusion;
- there is no evidence that a 0.3% p.a. reduction in the employee contribution rate for those earning between £12,001 and £15,000 would have any effect in terms of encouraging those who have opted out of the scheme to join it;
- given the existence of means-tested state pension benefits it is debatable whether CLG should be trying to encourage lower paid members into the scheme, further analysis is required; and
- the biggest differential in earnings between the public and private sector is amongst those on the highest grades. Further increases in employee contribution rate of 1% for those earning over £75,000 and 2.5% for those earning over £100,000 will either make it more difficult to recruit and retain officers at the highest level or will lead to increased pressure on pay levels which, if it leads to higher pay, would increase past service liabilities and hence extra pension costs for employers.

We would also note that the final salary structure of the scheme favours those with high pay increases rather than the higher paid per se.

In our view, improving fairness of the scheme should be tackled in a further stage of CLG's review of the LGPS via the benefit structure rather than through the employee contribution scale.

In conclusion

We support the concept of financing plans, including, a requirement for a risk assessment to be carried out, if these demonstrably improve transparency and governance. However, we note that this could be achieved within the existing regulatory framework through revised guidance on the funding strategy statements rather than through new regulations.

We do not support local funding targets and note that these already exist (although this may not be well understood).

We are not supportive of the proposals relating to a revised contribution tariff for employees.

Assets and liabilities of LGPS funds should be assessed and disclosed on a consistent basis to enable all stakeholders to validly compare different funding approaches.

The funding framework must have an increased focus on the interaction between contributions and investment strategy and require a meaningful degree of risk assessment and disclosure.

The funding framework should increase the disclosure of risks relating to employers who are not directly funded by taxpayers.

Whatever measures are put in place to secure a satisfactory outcome from the 2010 valuations from a local authority / taxpayer perspective, it must be clear that they do not obviate the need to review the benefit structure to secure the longer-term affordability and sustainability of the scheme.

Agenda Item 10

Haringey

Agenda item: [No.]

Pensions Committee On 17th Sept 2009

Report Title: Fund Administration Update

Report of Assistant Chief Executive People and Organisational Development

Signed

Stuart Young
Assistant Chief Executive P.O.D

Contact Officer : I M Benson Pensions Manager (0208 489 3824)

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

1. Purpose of the Report (That is, the decision required)

1.1 To consider 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 (LGPC) and Department for Communities and Local Government (DCLG).

2. Introduction by Cabinet Member (if necessary)

3. State links with Council Plan Priorities and actions and / or other Strategies

3.1 Review of AVC Providers by Hymans Robertson

3.1.1 Hymans Robertson were asked to carry out a review of the Fund's AVC Providers as part of our due diligence in monitoring the AVC scheme.

3.1.2 A Briefing Note is attached as **Appendix 1**.

3.1.3 The Council's AVC Providers are Prudential and Clerical & Medical. Since publication of the report, Clerical & Medical have announced the merger of their sales force with Scottish Widows as a first step towards combining both companies under the Scottish Widows brand.

3.1.4 In summary the report recommends that our current Providers are retained and that action is taken to both raise the profile of AVCs as a means of providing additional benefits on retirement and to actively engage with Prudential in monitoring their investment performance which is below that of its competitors.

3.1.5 Arrangements are in hand to meet with the Providers to stimulate a coordinated approach to communicating the AVC option to the membership and to monitor investment performance.

3.2 <u>Local Government Employer's (LGE) Response to DWP Consultation on Auto Enrolment</u>.

3.2.1 DWP have published draft regulation for auto-enrolment into pension schemes expected to be in force from 2012.

3.2.2 In the LGPS auto enrolment currently applies to new recruits employed on a contract for three months or more. If the employee chooses to opt-out with the initial three month period, contributions are refunded.

3.2.3 Under the proposed rules for auto-enrolment, an opt-out from auto enrolment must exercised within 30 days of the member joining or receipt of enrolment information whichever is later.

3.2.3 Currently Opt-out forms are provided by the Employing Bodies. The LGE in their response argue that the proposal for opt-out forms to be provided by the Pension Scheme would be administratively onerous and costly.

3.2.4 Nationally some 36% of eligible members choose not to join the LGPS. These tend to be low paid part-time females and If opt-out forms have to be issued by the Pension Scheme and a significant number of potential optants –out miss the tight deadline, this, the LGE argue will lead to a significant increase in employer costs.

4 Recommendations

4.2 That the Administration Report update be noted

4.3 That no change is made to the Fund's AVC Providers

4.4 That Prudential and Clerical & Medical are invited to discuss ways in which awareness of the AVC Scheme can be increased and that investment performance can be monitored.

5 Reason for Recommendations

5.1 Not applicable

6 Other options considered

6.2 Not applicable

7 Summary

7.1 This report updates the Committee on general administration issues arising from the Local Government Pension Scheme.

8 Chief Financial Officer Comments

8.1. The Chief Financial Officer concurs with the financial implications paragraph

9 Head of Legal Services Comments

9.1. The Head of Legal Services has been consulted on the content of this report and has no specific comment to make

10 Head of Procurement

10.1 (Not Applicable)

11 Equalities & Community cohesion Comments

11.1 Of the 36% of eligible employees who opt out of the LGPS, the majority are Part-time female employees in low paid employment.

12 Consultation

12.2 **The employees side have been consulted..**

13 Service Financial Comments

13.2 As Haringey Council is the largest employer in the Fund, as well as being the scheme administrator the impact of the rule requiring opt-out forms to be issued by the Pension Scheme will be minimal

13.3 Any costs required to raise awareness of the AVC scheme will be borne by the AVC Providers

14 Use of appendices / Tables and photographs

Appendix 1 is the Briefing Note on the AVC Providers Review Report from Hymans Robertson

15 Local Government (Access to Information) Act 1985

(List background documents)
(also list reasons for exemption or confidentiality (if applicable)

15.1 Hymans Robertson AVC Providers Review

Appendix 1

Haringey Council Pension Fund
Hymans Robertson AVC Review Report -- Briefing Note

Introduction:

Hymans Robertson have completed their review of the Haringey Council AVC Scheme. This was requested as part of our obligation to exercise due diligence in monitoring our AVC Providers.

The AVC Option

The new HMRC tax regime which came into effect in April 2006 allowed greater flexibility both in terms of contribution limits and in converting AVC funds to tax free cash. In many cases, members can now convert the whole of their AVC fund to cash.

At the same time the LGPS regulations changed the accrual on benefits from 1/80th Pension plus 3/80ths Lump Sum to a 1/60th pension and no automatic lump sum. The purchase of added membership was replaced by the option to purchase added units of pension which cannot be converted to cash.

The option to pay AVCs is therefore likely to become more attractive to members who want to build up extra pension and or have an option to take tax free cash.

AVC Accounts

The Fund has two active Providers (Prudential and Clerical and Medical) as well as Equitable Life which does not accept new business.

Prudential has 96 accounts; Clerical and Medical has two accounts and Equitable Life has 47. These represent 0.8% of the Fund membership which Hymans consider to be low and is lower than other Funds for which they have carried out reviews.

Providers

Of the Providers operating in the area of AVC schemes, Prudential stands out as the most committed and proactive. Prudential have a dedicated LGPS website and call centre team which is trained to answer day to day questions from LGPS scheme members. They also handle all aspects of the application process.

Clerical and Medical have indicated that while they are not seeking new business in this area, they will continue to support existing clients.

The review found that Prudential apart, the other Life Officers did not display any particular commitment to marketing or promoting AVCs to local government scheme members.

The report refers to Scottish Widows which it says does have a strong AVC profile although it has only a small client base within the local government scheme.

Investment Options

An extract from Hewitt and Bacon's AVC Review 2008 showing investment returns for the main Providers is attached.

While the performance coming from Prudential is considered 'reasonable' Hymans caution against a switch to a higher performing Provider who is less proactive then Prudential. They suggest opening a dialogue with Prudential to better understand the underlying reasons for current performance and to seek assurances on steps being taken to ensure steady improvement over time.

Hymans consider that the range of investment options on offer by Prudential may be to many and that this may act to inhibit the member from opting to pay AVCs .

Pricing

Overall Prudential has much lower charges then the other Providers in the LGPS market place. (0.65% for internal funds and 0.75% for BGI's passive funds.

Other Providers charge 1% for passive funds although Scottish Widows are slightly cheaper.

Conclusions

Investment

The review does not suggest a change away from Prudential. It's lacklustre investment performance is counterbalanced by its strong focus and commitment to the LGPS AVC market.

Hymans recommend that we open a dialogue with Prudential to understand why they are underperforming and to seek assurances on what steps they are taking to improve over the longer term. The investment options being offered to members should be reduced to allow potential members to better focus on the choices available.

Take-up of AVCs

In some measure the low take up of Prudential AVCs can be linked back to data protection concerns around providing Prudential with our active members names and addresses. These matters have now been resolved to the satisfaction of our Data Protection Team.

Clerical and Medical / Scottish Widows

The low take up of AVCs through Clerical and Medical is explained by their decision not to seek new AVC business.

Scottish Widows are highlighted in the report as having a positive LGPS focus in marketing AVCs albeit their penetration into the market is very small.

However since the review was concluded, Scottish Widows and Clerical and Medical have announced that from 1st July 2009, they will have one combined sales force and that over time they will integrate under the Scottish Widows brand.

Recommendations

That a dialogue is opened with Prudential to discuss Investment Performance on an on-going basis.

That the investment options made available by Prudential are reviewed

In conjunction with the above, Prudential and Clerical Medical / Scottish widows are invited to discuss ways and means of increasing awareness of the AVC scheme.

I M Benson
Pensions Manager
17 August 2009

Appendix 2

Haringey Council Pension Fund	**Early and Flexible Retirements 1 April 2009 to 30th June 2009**			
Haringey Council	Number of Cases	Basic Capital Cost	Cost of Added Years	**Total Cost**
Early Retirement	1	£13,400	£0	**£ 13,400**
Flexible Retirement	2	£0		**£0**
Sub –Total	**3**	**£13,400**	**£0**	**£13,400**
Employing Bodies	Number of Cases	Basic Capital Cost	Cost of Added Years	Total Cost
Early Retirement	0	£0	£0	£0
Flexible Retirement	0	£0	£0	£0
Sub-Total	**0**	**£0**	**£0**	**£0**
Total For Haringey Council and Employing Bodies				
Total Q1 09/10	**3**	**£13,400**	**£0**	**£13,400**
Total Q1 08/09	**4**	**£119,000**	**£0**	**£119,000**
The discretion to release benefits early has been exercised in accordance with the relevant employing bodies Policy Statement and the Capital costs have been paid into the Fund within the timescale agreed by the Fund actuary.				

Appeals Report to Quarter ending 30th June 2009				
Appeals Process Quarterly Report	Number Open	Upheld	Not Upheld/ Closed	On Going
Stage 1 Appeal	0	0	0	0
Stage 2 Appeal	0	0	0	0
Pensions Ombudsman	0	0	0	0

Appendix 3

Receipt of contributions from employing bodies;

Employing bodies are informed that they have a statutory duty to remit pension contributions to the Fund no later then the 19th of the month following the month in which the deductions are made.

For the quarter ending **30th June 2009**, the receipt of contributions from the Employing Bodies and Schools with their own Payroll Providers has been checked by Corporate Finance and payments have been received within the statutory time-limit.

Appendix 4

Pensions Scheme Regulations Local Government Pension Scheme Regulations (as amended)	The scheme is administered in compliance with the provisions of the scheme regulations and relevant advice.
Data Protection	Data held on records maintained by the Pensions Team is registered in compliance with the relevant Data Protection Legislation
Disclosure of Information The Occupational Pensions Schemes (Disclosure of Information) Regulations 1996	The scheme is administered in compliance with the Disclosure of Information Regulations 1996 (as amended) and relevant advice.
Member Communication	Communication with members and employers is conducted in accordance with the Communications Policy approved by Pensions Panel on 23rd June 2008
Best Practice	The scheme is administered having regard to the Best Practice Principles published by the UKSC

Settlement of employee benefits:

Employee benefits are settled within 10 working days of all paperwork being received in line with performance standards approved and monitored by the Head of Personnel

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Haringey

Agenda item: [No.]

Pensions Committee On 17th September 2009

Report Title: Cessation of Admission Agreement with Workforce Facilities Ltd	
Report of Chief Financial Officer and Assistant Chief Executive People and Organisational Development Signed **Assistant Chief Executive People and Organisational Development** Signed **Chief Financial Officer**	
Contact Officer : I M Benson Pensions Manager 0208 489 3824	
Wards(s) affected: All	**Report for: Non Key Decision**

1. Purpose of the Report (That is, the decision required)

1.1 To report on the funding position attributable to Workforce Facilities Ltd on their cessation as an admitted body to the Haringey Pension Fund at 7th May 2009

2. Introduction by Cabinet Member (if necessary)

3. State links with Council Plan Priorities and actions and / or other Strategies

3.1 Workforce Facilities Ltd were contracted to provide security services to Alexandra Palace from 7th April 2009. The company was admitted to participate in the Haringey Council Pension Fund from that date.

3.2 On 7th May 2009, Workforce Facilities Ltd was acquired by Europa Workspace Ltd when its parent company went into liquidation. This automatically brought the admission agreement to an end.

3.3 On the cessation of an Admission Agreement, the Council as the Administering Authority is required to obtain a cessation report from the Fund actuary.

3.4 The one active member of the LGPS who was employed by Workforce Facilities Ltd was TUPE transferred to Europa Workspace Ltd on the 8th May 2009. The legal process for transference of the contract for the provision security services is currently ongoing.

3.5 The report from Hymans Robertson shows that Workforce Facilities Ltd had accrued a small surplus on termination of the agreement amounting to £6000. There is no provision in the scheme regulations which allows this surplus to be refunded and it therefore remains in the fund.

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4. Recommendations

4.1 .That the settlement of the £6000 surplus attributed to Workforce Facilities Ltd on the cessation of the admission agreement be noted .

5. Reason for Recommendations

5.1 The Council as the Administering Authority is required to obtain a Cessation Report from the Fund actuary to identify the liability if any attributable to the former admitted body.

6. Other options considered

6.1 None

7. Summary

7.1 To report on the cessation of the Admission Agreement with Workforce Facilities Ltd and the settlement of the accrued surplus in the Fund

8. Chief Financial Officer Comments

8.1 The Chief Financial Officer concurs with the financial implications paragraph

9. Head of Legal Services Comments

9.1 The Head of Legal Services has been consulted on the content of this report and has no specific comment to make. The content of the report and its recommendation fall within the statutory framework governing the cessation of an admission agreement

10.Head of Procurement

10.1 Not Applicable

11. Equalities & Community Cohesion Comments

11.1 There are no equalities issues arising from this report

12.Consultation

12.1 The Employees Side have been consulted on the content of this report.

13. Service Financial Comments

13.1. The surplus of £6000 remains in the Fund. The fund actuary will take account of this surplus at the next fund valuation at 31st March 2010 There are no other financial implications

14.Use of appendices / Tables and photographs

14.1 There are no appendices attached to this report.
15. **Local Government (Access to Information) Act 1985** (List background documents) (also list reasons for exemption or confidentiality (if applicable) London Borough of Haringey Cessation Valuation Workforce Facilities Ltd May 2008

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Agenda Item 12

Haringey

Agenda item: [No.]

Pensions Committee On 17th September 2009

Report Title: Admission Agreement with Europa Workspace Solutions Ltd to the Haringey Council Pension Fund

Report of Chief Financial Officer and Assistant Chief Executive People and Organisational Development

Signed

Assistant Chief Executive People and Organisational Development

Signed

Chief Financial Officer

Contact Officer : I M Benson Pensions Manager 0208 489 3824

imbenson@haringey.gov.uk

Wards(s) affected: All	Report for: Non Key Decision

1. Purpose of the Report (That is, the decision required)

1.1 To approve the admission of Europa Workspace Solutions Ltd as transferee admitted body participating in the Haringey Council Pension Fund from 8th April 2009..

2. Introduction by Cabinet Member (if necessary)

3. State links with Council Plan Priorities and actions and / or other Strategies

3.1 On 1st August 2002 Alexandra Palace Charitable Trust entered into a contract for security services with Trident Security Ltd. later called Mittie Securities Ltd. This contract was awarded to Workforce Facilities Ltd with effect from 7th April 2009. On 8th May 2009, the company was acquired by Europa Workspace Solutions Ltd and the security contract was novated to them by Alexandra Palace Trust

3.2 Of the three scheme members originally TUPE transferred to Trident Security Ltd, one remains as an active member of the Fund. That employee has been TUPE transferred to Europa Workspace Solutions Ltd.

3.3 This admission agreement is with a private contractor where service is being transferred by means of a contract. The contractor is thereby a 'transferee admission body' as defined in regulation 6 of the Local Government Pension Scheme Administration Regulations 2008.

3.4 The agreement will be a 'closed agreement' under which only the remaining member of the LGPS who is employed on the contract, will be eligible for admission to the Local

Government Pension Scheme. On this basis, the actuary has set the employer contribution rate for future service at 28%. Changes increasing the required contribution rate are only paid for by the contractor if they are changes they have made. All other consequential contribution increases above 28% will be met by Alexandra Palace Charitable Trust.

3.5 The regulations require that the contractor provides an indemnity bond to protect the fund should the agreement terminate early. The value of the Bond is determined by actuarial assessment and is agreed between the parties. The review and provision of the Bond is an employer cost. The Council's actuary has put a value on the Bond of £26,000. The Bond protects the Fund against potential early retirement on redundancy costs should the company fail commercially

3.6 Any actions taken that require payment of a capital cost will be recovered through the normal charging process. The actuary will take account of the contractor's discretionary policy including early and ill health retirements when setting it's employer contribution rate at future fund valuations

3.7 As the arrangements for novating the contract from Workforce Facilities Ltd to Europa Workspace Ltd are still under review Members are asked to approve the delegation of final approval for this application to the Chief Financial Officer

4. Recommendations

4.1 That Members agree to the admission of Europa Workspace Solutions Ltd as a transferee admitted body to the Fund from 8th May 2009

4.2 That the agreement is a closed agreement such that no new members can be admitted.

4.3 That the contractor is required to provide a Bond to the value of £26,000 to be reviewed by the Fund actuary on an annual basis.

4.4 That final approval to the terms of this Admission Agreement be delegated to the Chief Financial Officer.

5. Reason for Recommendations

5.1 N/a.

6. Other options considered

6.1 None

7. Summary

7.1 This report seeks approval for the admission of Europa Workspace Solutions Ltd to the Haringey Council Pension Fund.

8. Chief Financial Officer Comments

8.1 The Chief Financial Officer concurs with the financial implications paragraph.

9. Head of Legal Services Comments

9.1 The Head of Legal Services has been consulted on the content of this report and has no specific comment to make. The content of the report and its recommendations fall within the statutory framework governing the setting up of an admission agreement where an eligible person is employed by a transferee admission body

10. Head of Procurement

10.1 Not Applicable

11. Equalities & Community Cohesion Comments

11.1 There are no equalities issues arising from this report

12. Consultation

12.1. The Employees Side have been consulted on the content of this report.

13. Service Financial Comments

13.1 The Council's actuary has assessed a contribution rate for the contractor as 28% and a Bond value of £26,000 which will be reviewed annually. The Bond is in place to protect the fund against the commercial failure of the company.

13.2 The contractor is required to meet future service costs as reflected in the above-mentioned contribution rate. The past service deficit remains with the Charitable Trust which will reimburse the Fund for any related costs

14. Use of appendices / Tables and photographs

14.1 There are no appendices attached to this report.

15. Local Government (Access to Information) Act 1985

(List background documents)

(also list reasons for exemption or confidentiality (if applicable)

15.1 Local Government Pension Scheme (Administration) Regulations 2008

15.2 Report from Hymans Robertson on Bond and Contribution Rate Assessment.

Reasons why this report is exempt Not Applicable

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Document is exempt

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