Haringey Council

NOTICE OF MEETING

Pensions Committee

THURSDAY, 16TH SEPTEMBER, 2010 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 Watson (Chair), Adje (Vice-Chair), Gibson, Stennett, Beacham, Jenks and Wilson

IN ATTENDANCE: Howard Jones, Roger Melling, Earl Ramharacksingh and Michael Jones

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 of unrestricted urgent business will be considered under agenda item 11 and new items of exempt urgent business will be considered under agenda item 15.

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 - 4)

To confirm the unrestricted minutes of the meeting of the Pensions Committee held on 21 June 2010.

5. ANNUAL GOVERNANCE REPORT 2009/10 - GRANT THORNTON (PAGES 5 - 24)

Report of the Director of Corporate Resources to present the statutory Annual Governance Report of Grant Thornton which reports on their annual audit of the Pensions Fund statutory accounts.

6. ATTENDANCE BY FUND MANAGERS

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

7:20 - Capital
7:45 - Fidelity

7. FUND PERFORMANCE UPDATE (PAGES 25 - 42)

Report of the Director of Corporate Resources 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 budget monitoring to the end of July 2010.

8. VERBAL ITEM ON INVESTMENT STRATEGY

9. LATE PAYMENT OF CONTRIBUTIONS (PAGES 43 - 48)

Report of the Director of Corporate Resources to report to the Committee on the extent of late payment of employee and employer contributions to the Fund and to consider actions to improve the situation as requested by the Pensions Committee at the meeting in June.

10. PENSION FUND TREASURY MANAGEMENT STRATEGY STATEMENT (PAGES 49 - 58)

Report of the Director of Corporate Resources to consider a proposed treasury management strategy statement for the investment of pension fund cash.

11. NEW ITEMS OF UNRESTRICTED URGENT BUSINESS

12. EXCLUSION OF 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).

13. FOLLOW UP REPORT ON PENSION FUND EMPLOYER ISSUE (PAGES 59 - 68)

Report of the Assistant Chief Executive, People and Organisational Development.

14. EXEMPT MINUTES (PAGES 69 - 70)

To confirm the exempt minutes of the meeting of the Pensions Committee held on 21 June 2010.

15. NEW ITEMS OF EXEMPT URGENT BUSINESS

Ken Pryor
Deputy Head of Local Democracy and Member Services
5th Floor
River Park House
225 High Road
Wood Green
London N22 8HQ

Helen Jones
Principal Committee Coordinator
Tel: 020 8489 2615
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Email: Helen.jones@haringey.gov.uk

Wednesday, 8 September 2010

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MINUTES OF THE PENSIONS COMMITTEE
MONDAY, 21 JUNE 2010

Councillors	Watson (Chair), Adje (Vice-Chair), Beacham, Gibson, Jenks, Stennett and Wilson
Apologies	Earl Ramharacksingh
Also Present:	Howard Jones (Independent Advisor), Roger Melling (Employee Representative), Steve Davies (Head of Human Resources), Ian Benson (Pensions Manager), Kevin Bartle (Head of Corporate Finance), Nicola Webb (Head of Pensions & Treasury) and Natalie Cole (Clerk)

MINUTE NO.	SUBJECT/DECISION	ACTION BY
PRPP01.	**APOLOGIES FOR ABSENCE** An apology for absence was received from Earl Ramharacksingh.	
PRPP02.	**URGENT BUSINESS** There were no items of urgent business.	
PRPP03.	**DECLARATIONS OF INTEREST** Councillor Jenks declared a personal interest as he was Chair of a care home run by TLC, one of the Pension Fund Employers. Councillor Wilson declared a personal interest as a contributing member of the Haringey Pension Scheme. Councillor Watson declared a personal interest as a deferred member of the Haringey Pension Scheme. Councillor Adje declared a personal interest as he was a contributing member of the Haringey Pension Scheme and worked for the London Fire Brigade as a GMB officer. Roger Melling declared a personal interest as a member receiving a Haringey pension.	
PRPP04.	**MINUTES** **RESOLVED** that the unrestricted minutes of the meeting held on 15th April 2010 be approved and signed by the Chair.	
PRPP05.	**AUDIT PLAN 2010/11** The Committee received the audit plan introduced by the external auditors from Grant Thornton; Subarna Banerjee and Matthew Cass. In response to paragraph 2.3 of the report which provided an update on the findings from the previous period, the Head of Corporate Finance informed the Committee that the Council was working towards a	

	separate designated bank account being set-up before the statutory April 2011 deadline to be used for surplus monies from the pension fund. In response to the Committee's questions Mr Cass stated that late contributions from bodies within the Council and receipt of contributions not being monitored as they should be, were risks associated with local authority pension funds. Further to its questions the Committee noted that whilst the auditors had not seen local authorities charge for late contributions before, there was a clause in the Pensions Regulations stating that the local authority could charge the base rate for contributions that were more than one month late. The Head of Pensions & Treasury was asked to liaise with the Pensions Manager about his work consulting on the possibility of the Council imposing charges for late contributions. **Action: Head of Pensions & Treasury / Pensions Manager** Committee members asked if auditors investigated the bodies paying into the pension fund and were informed that it was possible to compare yearly and monthly figures and, where there were significant differences the body would be challenged. The Committee agreed that auditors should examine the contribution activity and records of one admitted body of the pension fund each year as part of the audit. **Action: Head of Corporate Finance/Grant Thornton Representatives** **RESOLVED** i. That the Audit Plan prepared by Grant Thornton be agreed; ii. That the possibility of the Council imposing charges for late contributions be investigated; iii. That the contribution activity and records of one admitted body of the pension fund be examined each year as part of the audit.	
PRPP06.	**PENSION FUND ANNUAL REPORT AND ACCOUNTS 2009/10** The Committee received the draft Annual Report and Accounts for 2009/10 which would be submitted to external audit and agreed by the General Purposes Committee as part of the Council's general accounts document. A revised draft of the Annual Report and Accounts had been circulated and published on the Council's website prior to the meeting due to some minor additions to the document. The Committee noted that the number of deferred members of the pension fund had increased substantially as had the administration expenses, which included the auditor's fees.	

	The Committee requested a breakdown of the investment management expenses, section 9 on Page 67 of the report pack. **Action: Head of Pensions & Treasury** **RESOLVED** i. That the draft Annual Report be approved subject to the review by external audit; ii. That General Purposes Committee are recommended to approve the draft Pension Fund accounts for 2009/10 subject to external audit.	
PRPP07.	**STATEMENT OF INVESTMENT PRINCIPLES** The Committee received the Statement of Investment Principles report presented by Nicola Webb, Head of Pensions & Treasury. The revised draft of the Pension Fund Statement of Investment Principles had been amended to incorporate the Myners Principles on investment and to comply with the Local Government Pension Scheme Regulations. The Head of Pensions Treasury was asked by the Committee to research the best toolkit to use for the self-assessment recommended by principle 4 of the Myners Principles on Performance Assessment. **Action: Head of Pensions & Treasury** The Committee agreed that the briefing sessions prior to Pensions Committee meetings would include refresher training for Members. **Action: Independent Advisor/Committee Members** **RESOLVED** That the revised Statement of Investment Principles be approved.	
PRPP08.	**BUSINESS PLAN INCORPORATING BUDGET 2010/11** The Committee received the report on the Business Plan for pension fund activities for 2010-11 and noted the amendment to the Investment Management Expenses figure for the 2010/11 Budget on Page 136 of the agenda pack. This figure should read £3,300 million rather than £3,800 million. The Committee agreed that a different pension fund manager be invited to attend each meeting in future to report to the Committee on performance. **Action: Nicola Webb** **RESOLVED** That the proposed Pension Fund Business Plan for 2010-11 be approved subject to the amendment of the Management Expenses figure for the 2010/11 Budget which should read £3,300 million.	

PRPP09.	**FUND PERFORMANCE REPORT** The Committee received the fund performance update and noted that the investment return achieved in the quarter to March 2010 was 6.56%, 0.42% behind the benchmark and 0.83% behind the target. The Committee was informed that BP was the largest equity holding in the Fund at the end of March 2010 and despite the current oil spillage situation BP was still a large percentage of the FTSE All Share, although it had reduced from around 7% to around 4%. Fidelity are underweight the benchmark and Capital have recently purchased a BP bond The Committee highlighted the importance of being kept informed and expressed concern that BP might be forced to suspend this year's dividend further to the oil leak, and that this would affect the Council's investment. It was noted that the loss from such a dividend suspension would be in the region of half a million pounds and that fund managers were asked to report regularly to the Council on unusual activity in the companies they invest in. The Committee noted Capital's performance. **RESOLVED** That the report be noted.	
PRPP10.	**NEW ITEMS OF UNRESTRICTED URGENT BUSINESS** There were no new items of unrestricted urgent business.	
PRPP11.	**EXCLUSION OF PRESS AND PUBLIC** **RESOLVED** That the press and public be excluded.	
PRPP12.	**EXEMPT MINUTES** **RESOLVED** that the restricted minutes of the meeting held on 15th April 2010 be approved and signed by the Chair.	
PRPP13.	**NEW ITEMS OF EXEMPT URGENT BUSINESS** There were no new items of exempt urgent business.	

The meeting ended at 20:30 hrs

COUNCILLOR RICHARD WATSON
Chair

Haringey Council

Agenda item:

Pensions Committee **On 16 September 2010**

Report Title: **Annual Governance Report 2009/10 – Grant Thornton**	
Report of **Director of Corporate Resources** Signed : J Parker 7/9/10	
Contact Officer : **Nicola Webb – Corporate Finance** **Telephone 020 8489 3726**	
Wards(s) affected: **All**	Report for: Non key decision

1. Purpose of the report

1.1 To present the statutory Annual Governance Report of Grant Thornton, which reports on their annual audit of the Pensions Fund statutory accounts.

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 Committee consider the contents of this report and any further verbal updates given at the meeting from Grant Thornton.

4.2 That the Committee agree the changes to be made to the Pension Fund Accounts for 2009/10.

5. Reason for recommendations

5.1 To ensure the final version of the accounts for 2009/10 complies with all accounting guidelines.

6. Other options considered

6.1 None applicable.

7. Summary

7.1 Grant Thornton have audited the draft annual report and accounts submitted to the Pensions Committee on 21st June 2010 and prepared their Annual Governance Report.

7.2 The auditors have recommended that four changes be made to the accounts to ensure full compliance with accounting guidance.

8. Head of Legal Services Comments

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

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 auditors have reported a small number of changes required to the 2009/10 Pension Fund accounts and officers have ensured these are being made. A review of how these issues arose will ensure that processes can be improved in future.

12. Use of appendices /Tables and photographs

Appendix A: Annual Governance Report, Grant Thornton
Appendix B: Letter of Representation
Appendix C: Audit Opinion

13. Local Government (Access to Information) Act 1985

Draft 2009/10 Pension Fund Annual Report & Accounts submitted to Pensions Committee on 21st June 2010.

Audit Plan 2009/10 submitted by Grant Thornton to Pensions Committee on 21st June 2010.

14. Background

14.1 At the Pensions Committee meeting on 21st June 2010, the draft Pension Fund Annual Report and Accounts 2009/10 was presented and it was noted that it would be subject to audit over the summer. Also at the same meeting Grant Thornton presented their plan detailing how they would undertake the audit.

14.2 The Audit Commission's statutory Code of Practice for Local Government bodies requires the external auditor to report to those charged with governance on matters arising from their audit before it is finalised. The Annual Governance Report prepared by Grant Thornton attached fulfils this requirement.

14.3 Officers have worked closely with Grant Thornton throughout the audit to provide all the information requested.

15. Annual Governance Report

15.1 The Annual Governance Report from Grant Thornton is attached at Appendix A. This sets out their findings in detail. This is marked as "draft" to allow the Committee to make any comments before it is finalised.

15.2 During the course of the audit four amendments to the accounts were identified and the Council agreed to make the changes as follows:

- A downward revision of the value of property related investments by £708k due to inconsistencies in valuations between the fund manager and the custodian.

- An upward revision of the value of private equity investments by £522k due to delays in receiving up to date valuations from the fund manager
- Correction of the reallocation of employer deficit contributions for 2008/09 of £101k. This has no impact on the fund account, but facilitates year on year comparisons.
- Accounting convention is that the correction of prior year investment management fees should have been carried out in 2009/10, rather than restating 2008/09. This reversal has been agreed to.

15.3 In addition, one item not considered sufficiently significant to have an adverse impact on the presentation of the fund was identified as follows:

- The value of debtors in respect of employer and employee contributions was overstated by £8,210.

15.4 A revised set of accounts, fully adjusted for the above changes is available for inspection by members.

16. Next Steps

16.1 The Director of Corporate Resources is required to sign a letter of representation to acknowledge the responsibility for the fair presentation of the information in the financial statements and the Pension Fund Annual Report. A proposed draft of this letter is contained at Appendix B of this report.

16.2 At Appendix C is the proposed audit opinion prepared by Grant Thornton, which will be inserted into the final version of the Pension Fund Annual Report and Accounts. This shows that the auditors' conclusion is that the pension fund accounts show a true and fair view.

16.3 Officers will undertake a review of the issues raised by the auditors to determine what improvements can be made in accounting processes. The timing of the receipt of investment valuations for the Fund's less liquid assets – property and private equity - is an on-going issue in terms of the statutory timetable for production of the accounts. However a review with the custodian and the fund managers for property and private equity will be undertaken to identify any further steps which can be taken to address the issue.

Grant Thornton

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

Audit of Financial Statements 2009/10
Report to those Charged with Governance

Contents

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 2010 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 2010. 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 23 September 2010.

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.

In section 2 we highlight new issues identified during the course of the audit. Section 3 provides a summary of how matters raised during previous audits have progressed.

In section 4, we highlight how potential adjustments identified during the audit were concluded.

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 2010

2 Detailed findings during the 2009/10 audit

2.1 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 environment 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.

2.2 Additional contributions deduction testing

At the request of the Pensions Committee, in addition to testing contribution deductions from the main payroll, the payroll for members from an additional employer was also tested to ensure that contributions were being deducted and paid over at the correct rates. The Employer chosen this year was Enterprise. No issues arose from that testing.

2.3 Anomalies in relation to Investment valuations

When preparing the accounts, reports obtained from the custodian are used as the basis for preparing the accounts. Quarterly reconciliations are carried out, and significant differences are pursued with the custodian. Our work includes obtaining, and comparing, independent valuation reports from both the custodian and fund managers to ensure consistency with the accounts, and with each other.

For the purposes of our audit, differences greater than 0.3% between individual fund manager and custodian valuations are investigated further.

Two issues were noted:

ING

The total value reported in the draft accounts in relation to ING is £45.7m. The valuation report obtained by directly from ING by Grant Thornton disclosed a value of £45.2m, a difference of 1.2%, £0.5m.

Further enquiries were made of both Northern Trust and ING, and it was confirmed that in relation to five funds held, there were net pricing errors of £708k; the impact being to reduce investment values by this amount. It was also noted that for two funds, ING had used incorrect prices, overvaluing assets by £193k. As the pricing used by the custodian was correct, no adjustment is required in respect of this amount. These two amounts account for the £0.5m difference indicated above.

Our discussions with the custodian noted that these differences arose due to the requirement to provide valuations soon after the month end. It was noted that the accuracy of the valuation provided can be affected if insufficient time is allowed to obtain the most reliable pricing source for that particular investment.

Pantheon

The normal valuation date for the private equity funds held with Pantheon is 31 December. The value in the accounts takes into account cash movements from the valuation date to the end of the financial year.

The custodian confirmed a valuation of £13.4m, based on valuations as at 30 September 2009, adjusted for cash movements to 31 March 2010. As part of our audit procedures, we obtained valuations based on the audited accounts of the funds as at 31 December 2009. Taking into account cash movements from January 2010 to 31 March 2010, this gave a value of £13.9m. An adjustment to increase the net assets of the fund of £522k is proposed.

It should be noted that audited accounts in relation to the Pantheon investments were not available until 24 June. It is probable that an adjustment to the accounts presented to the June Committee meeting will often be required. The extent of any potential adjustment is dependent upon the information available to the custodian when producing the valuation as at 31 March 2010, and the fluctuation in market conditions between that date and when audited information becomes available, and is outside the control of management.

It is recommended that further discussion takes place with the custodian and fund managers to ensure that valuations provided by them meets the expectations of management to enable the fund's financial statements to be prepared within a realistic timeframe.

2.4 Reallocation of prior year contribution disclosure

CIPFA conducted a global review of the 2008/09 LGPS pension audit process. One of the key conclusions was that the presentation of employer contributions was not fully compliant with the SORP. Guidance was provided directing the preparers of LGPS accounts to highlight the fact that normal monthly employer contributions include an element relating to funding the past service deficit. In order to ensure fair year on year comparison, a reallocation of £10,750k to the comparative employer contributions figure has been made. This reallocation does not impact on the total contributions disclosed, nor the net assets of the fund.

2.5 Misallocation of income

During our testing of contributions receipts it was noted that receipts from four employers, amounting to £8,210, which had been received in the year, had been included as an amount owing to the fund at the year end.

Whilst recognising that this amount is not material to the accounts as a whole, it is recommended that the process for monitoring, and recording, contributions receipts is reviewed.

2.6 Timeliness of processing transfers out

Normally, quoted transfer values are valid for three months. We would therefore expect transfers out to be processed within 90 days from the date of request. Of the eleven items tested during the audit, three were found to have taken more than 90 days to be finalised. It was confirmed that of these, two were interfund transfers, which are not subject to a three month guarantee. At the time these three transfers took place, in order to complete the transactions, additional guidance from the Government Actuary's Department (GAD) was required, the receipt of which was delayed. The transfers were subsequently settled within a month of the additional guidance being received.

On this basis, where delays occur in processing transfers, it appears to be in relation to factors outside the control of the administration team.

3 Update on matters identified in prior years

3.1 Use of shared bank accounts

As previously highlighted, 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 previous reviews concluded that good controls are in place to ensure balances relating to the fund are easily identifiable from Council funds.

Whilst accepting that the use of shared bank accounts was in accordance with existing regulations, our recommendation that consideration is given to the Fund having its own bank accounts separate from those of the Council remained.

Update to the year ended 31 March 2010

It is noted that in the year to 31 March 2010, a number of money market deposits have been established, within which identified surplus pension cash is transferred to on a monthly basis. In the light of revised regulations due to come into force from April 2011, we understand that separate banking arrangements will be in place by the end of the calendar year.

3.2 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 the year ended 31 March 2009 it was noted that 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 represented a significant improvement on our review for the year ended 31 March 2008.

Update to the year ended 31 March 2010

Our review this year revealed the following:

Payroll type	Total receipts	On time	Late, between 1 day and a month	More than a month late
Council	82	76	6	-
Scheduled bodies	60	53	5	2
Admitted bodies	107	87	13	7

In the case of Works Facility (Europa), contributions for eight months were paid late, with one month remaining unpaid for five months.

Following discussions with management, we understand a project is already underway reviewing the process in relation to the timely receipt of contributions.

4 Audit adjustments

As highlighted in section 2, certain potential adjustments were identified, and have been actioned as detailed in the following paragraphs. The net effect of the processed adjustments is to decrease net assets by £186k.

4.1 Adjusted changes

The following items have been processed by management:

- Variances between the custodian and fund manager valuations have resulted in a net decrease to net assets of £186k.

4.2 Unadjusted changes

- Overstated contributions debtors amounting to £8,210 was not considered material in the context of the accounts as a whole. As such, no adjustment was proposed.

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 2009/10 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 4.1.
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 4.2.
Other Matters	No material weaknesses in internal control were identified during our audit.

Our Ref
Your Ref PD/SB/MHC/H05806062

APPENDIX B

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

16th September 2010

Dear Sirs

London Borough of Haringey Pension Fund - financial statements for the year ended 31 March 2010

We confirm to the best of our knowledge and belief that the following representations are made on the basis of appropriate enquiries of other members, related parties, controlling bodies, management and staff of The London Borough of [council name] ('the authority'), with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you in respect of your audit of the above financial statements, in accordance with the terms of your audit plan for 2009/10.

i We acknowledge our responsibilities for ensuring that financial statements are prepared which give a true and fair view of the financial position of the pension fund and for making accurate representations to you.

ii As far as we are aware:
- there is no relevant audit information of which you are unaware; and
- we have taken all steps that we ought to have taken to make ourselves aware of any relevant audit information and to establish that you are aware of that information.

iii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.

iv All the accounting records of the pension fund have been made available to you for the purpose of your audit and all the transactions undertaken by the pension fund have been properly recorded in the accounting records and reflected in the financial statements.

v All other records and related information, including minutes of all management and Committee meetings, have been made available to you.

vi The financial statements are free of material misstatements, including omissions.

vii We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.

viii We have no knowledge of fraud or suspected fraud affecting the pension fund involving:
- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements;

ix We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

x We are not aware of any instances of actual or possible non-compliance with laws, regulations, contracts, agreements or the Council's constitution that might result in the pension fund suffering significant penalties, other loss or affecting the financial statements. No allegations of such irregularities, including fraud, or such non-compliance have come to our notice

xi Except as stated in the accounts:
- there are no unrecorded liabilities, actual or contingent
- there are no employer related investments
- none of the assets of the pension fund have been assigned, pledged or mortgaged
- there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

xii All related parties have been identified to you and there were no transactions with related parties which should be disclosed in the financial statements, that are not already disclosed in the notes to the accounts.

xiii There are no claims, legal proceedings or other matters which may lead to a loss falling on the authority or which could result in the creation of an unrecorded asset, that should be disclosed in the financial statements.

xiv The pension fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

xv We are not aware of any instances of actual or possible non-compliance with laws and regulations which might affect the view given by the financial statements.

xvi No significant events having an effect on the financial position of the pension fund have taken place since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto.

Approval

The approval of this letter of representation was minuted by the Pensions Committee at its meeting on 16th September 2010.

Signed on behalf of The London Borough of Haringey Pension Fund

Name	Julie Parker
Position	Director of Corporate Resources
Date	16th September 2010

APPENDIX C

Independent auditor's report to the Members of London Borough of Haringey Pension Fund

We have audited the pension fund accounting statements for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Haringey Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

The Chief Financial Officer's responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities on page 27.

Our responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the fund year. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements.

We review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounting statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

We read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the management report, the investment report, the administration report, the funding report, the governance compliance statement, the current statement of investment principles, the communications policy and the current funding strategy statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In our opinion:

- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the fund year; and

- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

Paul Dossett
Senior Statutory Auditor
For and behalf of Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

Agenda Item 7

Haringey Council

Agenda item:

Pensions Committee **On 16 September 2010**

Report Title. **Fund Performance update**

Report of **Director of Corporate Resources**

Signed : J. Parr 7/9/10

Contact Officer : **Nicola Webb – 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 Pension Fund and for each of the Fund's investment managers.

1.2. To report on key responsible investment issues using information provided by the Fund Managers and the Local Authority Pension Fund Forum (LAPFF).

1.3. To report on budget monitoring against the Pension Fund budget.

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 2010 be noted.

4.2 That the responsible investments information provided be noted.

4.3 That the pension fund budget monitoring position 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 investment return achieved in the quarter to June 2010 was minus 7%, which was 0.03% behind the benchmark and 0.44% behind the target. The Fidelity bonds portfolio is the only one to have met or exceeded the target since the inception of the investment strategy in April 2007.

7.2 The budget monitor shows an overall variance of less than 1% at the end of June 2010.

8. Head of Legal Services Comments

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

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 the Fund Managers continues to be carefully monitored in the current market conditions. The investment strategy of the Fund is being reviewed during this year, which will address the performance issues.

11.2 In overall terms the budget monitoring position at 30th June 2010 is broadly as expected, although transfers in and out and investment income continue to be volatile. The Pension Fund is still generating a surplus of cash every month, as contributions are higher than benefits.

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 2010.

12.3 Appendix 3: Responsible Investment update.

12.4 Appendix 4: Budget Management : monitoring to 30 June 2010.

13 Local Government (Access to Information) Act 1985

Northern Trust performance monitoring reports.

Fund performance update report to Pensions Committee on 21 June 2010.

14. Previous Quarter Investment performance

14.1 The investment performance of the Pension Fund was last reported to Pensions Committee in June 2010. That report covered the period up to 31 March 2010, at which time the following points were noted:

- Since monitoring against the new benchmark commenced on 1 April 2007, the combined Haringey fund had increased in absolute terms by 0.22% per cent up to 31 March 2010, underperformed the gross benchmark by 2.53% and also underperformed the gross target by 4.17%.
- The performance by the Fund Managers over the same period was as follows:
  - Fidelity's Bond mandate out performed the gross target by 1.03% and the Equity mandate under performed the gross target by 1.42% but achieved the benchmark.
  - Capital's Equity and Bond mandates were below target by 3.73% and 1.43% respectively.
  - ING were below target by 1.36%.

15. Total Fund investment performance for quarter to 30th June 2010

15.1 The current investment strategy was implemented on 1st April 2007 and so all the performance figures which follow show performance since that date.

15.2 Performance of the combined Haringey fund compared to benchmark and target for the three months to end of June 2010 and annualised performance to end of June 2010 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 2010	1 April 2007 to 30 June 2010 (annualised)
	%	%
Overall fund performance	(7.00)	(2.01)
Benchmark	(6.97)	0.28
Performance versus benchmark	**(0.03)**	**(2.29)**
Overall fund performance	(7.00)	(2.01)
Target	(6.56)	1.92
Performance versus target	**(0.44)**	**(3.93)**

15.3 This shows that in the period to 30th June 2010:

- The annualised performance of the combined Haringey fund was a reduction in absolute terms of 2.01%, the fund under performed the new benchmark by 2.29% and under performed the target by 3.93%;
- The annualised position has marginally improved since the report to the last meeting with the under performance versus target decreasing from (4.18) to (3.93).

15.4 At the Pensions Committee on 15th April 2010, it was decided to reduce the Fund's holding in gilts by 2%, index linked gilts by 0.3% and corporate bonds by 2.4% and to invest these funds in cash. This was carried out in the quarter and £29.5m of bonds were sold by Capital and the cash returned to the in-house team. The cash has been invested in line with the Council's Treasury Management Strategy Statement for 2010/11 – see cash management below. Appendix 1 shows the value of the Fund was split into the various types of investments at the end of June 2010 and for comparison the end of the previous quarter. The top ten equity holdings for the first time includes the whole of the Fund's exposure to equities including both directly held shares and those in pooled funds.

16. Fund Manager Performance

16.1 Appendix 2 shows investment performance to end of June 2010 for each Fund Manager, compared to benchmarks and targets as supplied by the custodian, Northern Trust. The data covers the period since 1 April 2007 when the current investment strategy was implemented.

16.2 The performance targets for each Fund Manager's mandate are shown below together with the fund managers' performance against those benchmarks since 1 April 2007 when the strategy was implemented. The contract with Legal & General has only been in place for one year and so long term performance data is not available. However their portfolio is invested in line with the benchmark, so the variation from the benchmark is minimal. The variation amounted to +0.07% since the contract started.

16.3 There have been 39 calls on the Pantheon Asia, Europe and USA funds totalling £15.4 million to date. Private equity is a long term asset class and therefore performance numbers are excluded as they are not considered meaningful when the funds are still in the drawdown phase.

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

	% Target above benchmark	% annualised performance above / (below) benchmark in the period 1 Apr 07 to 30 Jun 10	% annualised performance above/ (below) target in the period 1 Apr 07 to 30 Jun 10
Capital - equities	2.0	(1.41)	(3.41)
Capital - bonds	1.0	(0.76)	(1.76)
Fidelity - equities	1.7	0.06	(1.64)
Fidelity - bonds	0.6	1.42	0.82
ING - property	1.0	(0.94)	(1.94)
Pantheon – private equity	0.75	N/A	N/A

16.5 The latest quarterly meetings took place in September 2010 between each active Fund Manager and the Head of Finance: Treasury & Pensions. A summary of the key issues discussed at those meetings is set out below.

Capital International

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

Fidelity

- Performance to date.
- Future outlook for markets.
- Review of Responsible Investments Issues.

ING

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

Pantheon

- Performance to date.
- Future outlook for markets.
- Change of ownership.
- Future pattern of cash flows.

17. Conclusions

17.1 Since monitoring against the new benchmark commenced on 1 April 2007, the annualised performance of the combined Haringey fund has shown a reduction in absolute terms of 2.01% up to 30 June 2010. During this period the Fund under performed the gross benchmark by 2.29% and also under performed the gross target by 3.93%.

17.2 Capital and ING are underperforming against both the benchmark and the target. Fidelity have outperformed the benchmark in both the bonds and equity portfolios, however the equity performance was below the target.

17.3 Investment returns in the equity markets were negative in the quarter, which was a reversal of the positive returns seen over the previous 12 month period. There are a number of ongoing issues which are likely to impact on future performance, and the situation will continue to be monitored carefully. These include:

- Sovereign debt issues, particularly in the Eurozone;
- The price of oil and commodities;
- The trends of inflation and risks of deflation;
- Interest rates;
- 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 members. One of the recommendations was that officers monitor the fund managers' approach to the revised Responsible Investment Policy. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which provides information about responsible investment issues and undertakes engagement with companies on these issues on behalf of local authorities.

18.2 Appendix 3 compares responsible investment information provided by the Council's two core Fund Managers for the quarter ending 30 June 2010 with the information supplied by LAPFF over the same time period. This highlights engagement work on environmental and governance issues as well as highlighting the publication of the UK Stewardship Code for institutional investors.

19. Budget Management

19.1 The budget monitoring analysis to the end of June 2010 is shown in detail in Appendix 4.

19.2 The significant variances to date are:

- Transfers in and out of the Fund continue to be volatile, as the volume and timing varies throughout the year;
- Investment income was £1.8m less than budgeted as the value of dividends paid by companies continues to remain low in the current economic climate;
- Investment management expenses are lower than budgeted at this stage in the year due to the timing of the receipt of invoices from fund managers

19.3 In overall terms the variance was only £62,000 which represents less than 1% of the budget to 30 June 2010.

20. Cash Management

20.1 The Pension Fund is holding cash in-house for a number of reasons:

- Funding property investments – it was agreed in 2007 at the last investment strategy review to increase the allocation of the Fund to property. An amount of £18m was invested in cash to fund this. The balance still to be drawn down is £3.1m.
- Funding private equity investments – at the last investment strategy review it was agreed that in addition to the original allocation, £10m a year be allocated to private equity and that this should be funded from cash surpluses and kept in cash pending drawdown. To date £15.4m has been drawn down and £20.3m remains in cash.

- Reduction in bond holdings – at the Committee meeting on 15th April 2010, it was decided to reduce the Fund's holdings in bonds and invest in cash. Bonds were sold and cash of £29.5m was transferred to the in-house account.

20.2 The elements of the cash invested in-house cash held at the end of June 2010 can be summarised as follows:

Property allocation	£3.1m
Private equity allocation	£20.3m
Sale of bonds	£29.5m
Other surplus of contributions over benefits	£13.6m
Total	£66.5m

20.3 The Council's standard risk protocols have been applied to all investments made on behalf of the pension fund and all investments were placed in accordance with the Council's Treasury Management Strategy. Please see the item on the agenda on the Pension Fund Treasury Management Strategy relating to future investments.

20.4 The table below shows key statistics, which are used for the Council's treasury management reporting, applied to the pension fund cash investments during the quarter. Descriptions of the statistics are provided below:

A	Credit score – value weighted	2.9
B	Credit score – time weighted	4.1
C	Weighted Average Maturity (days)	81
D	Interest Rate earned	0.64%

A & B: These measure score credit risk on a scale of 0 to 10 on both a value weighted and a time weighted basis and the table below demonstrates how to interpret the scores:

Above target	AAA to AA+	Score 0 - 2
Target score	AA to A+	Score 3 - 5
Below target	Below A+	Score over 5

C: This is a measure of how liquid the portfolio is. It shows the weighted average maturity of the fixed term deposits. In addition the Fund holds instant access funds in money market funds.

D: This is the interest rate earned in the quarter on the deposits placed.

20.5 The statistics show that the cash is invested in highly rated institutions with an average maturity of 81 days. This level of liquidity allows the Pension Fund to pay drawdowns to the property and private equity managers as required while investing long enough to achieve a reasonable rate of return. 0.64% was the rate earned which was 0.14% higher than the Bank of England base rate.

Appendix 1

a) Fund Holdings

	As at 30 June 2010			As at 31 March 2010		
Fund Holdings	**Market Value £'000**		**% of Fund**	**Market Value £'000**		**% of Fund**
UK equities		159,898	25.6%		181,718	27.4%
held in individual shares	32,453			36,727		
held in pooled funds	127,445			144,991		
Overseas equities		208,976	33.5%		237,193	35.8%
held in individual shares	76,267			85,473		
held in pooled funds	132,709			151,720		
Bonds		121,602	19.5%		148,149	22.4%
held in individual bonds	21,055			33,867		
held in pooled funds	100,547			114,282		
Property	46,063	46,063	7.4%	45,895	45,895	6.9%
Private Equity	15,575	15,575	2.5%	13,053	13,053	2.0%
Cash		72,423	11.6%		36,494	5.5%
held by Fund Managers	5,880			2,564		
held in-house	66,543			33,930		
Totals		**624,537**	**100.0%**		**662,502**	**100.0%**

b) Top Ten equity shares - held directly and in pooled funds

		As at 30 June 2010		
Company	**Sector**	**Rank**	**Percentage of Equities**	**Market Value**
			%	**£m**
Royal Dutch Shell	Oil & Gas	1	3.16%	11.67
HSBC	Banks	2	2.76%	10.19
Vodafone	Telecomms	3	2.13%	7.84
Glaxosmithkline	Pharmaceuticals	4	1.66%	6.11
BP	Oil & Gas	5	1.48%	5.47
Astrazeneca	Pharmaceuticals	6	1.40%	5.15
Rio Tinto	Mining	7	1.31%	4.83
BG Group	Oil & Gas	8	1.30%	4.81
BHP Billiton	Mining	9	1.14%	4.19
Barclays Bank	Banks	10	1.13%	4.16

Appendix 2

Fund Performance to 30th June 2010

Gross of Fees

	Market valuations 31.03.08	Market valuations 31.03.09	Market valuations 31.03.10	Market valuations 30.06.10	Weighted % Fund change 1 April to 30 June 2010	% benchmark change 1 April to 30 June 2010	% target 1 April to 30 June 2010	**Under (-)/over (+) performance versus target 1 April to 30 June 2010**	Weighted % Fund change 1 April 2007 to 30 June 2010	% benchmark change 1 April 2007 to 30 June 2010	% target 1 April 2007 to 30 June 2010	**Under (-)/over (+) annualised performance versus target 1 April 2007 to 30 June 2010**
	£'000	£'000	£'000	£'000	%	%	%	%	%	%	%	%
Capital -Equities	125,246	95,609	139,785	124,682	(10.80)	(11.19)	(10.69)	(0.11)	(1.68)	(0.27)	1.73	(3.41)
Capital -Fixed Income	62,451	63,111	70,923	42,977	2.49	3.64	3.89	(1.40)	5.24	6.00	7.00	(1.76)
Fidelity -Equities	126,566	98,171	144,909	128,145	(11.57)	(11.02)	(10.60)	(0.97)	(0.38)	(0.44)	1.26	(1.64)
Fidelity - Fixed Income	65,390	64,390	77,481	79,484	2.60	2.90	3.05	(0.45)	7.82	6.40	7.00	0.82
Bernstein -UK Equity	117,805	71,622	-				-	-			-	-
Bernstein -Global Equity	28,299	18,875	-				-	-			-	-
L & G-UK Equity	-	-	108,949	96,120	(11.78)	(11.80)	(11.80)	0.02	-	-	-	-
L & G-Global Equity	-	-	28,077	24,926	(11.22)	(11.26)	(11.26)	0.04	-	-	-	-
ING	51,505	36,000	46,167	46,721	0.87	3.10	3.35	(2.48)	(9.60)	(8.66)	(7.66)	(1.94)
Pantheon - private equity	2,719	11,509	13,131	15,652	(0.28)	(10.14)	(9.39)	9.11	-	-	N/A	N/A
Total	**579,981**	**459,287**	**629,422**	**558,707**	**(7.00)**	**(6.97)**	**(6.56)**	**(0.44)**	**(2.01)**	**0.28**	**1.92**	**(3.93)**

In house cash - earmarked for property	9,350	9,350	3,252	3,102
In house cash - earmarked for private equity	9,500	9,500	13,174	20,265
Other	544	4,154	17,504	43,127
Total Fund	**599,375**	**482,291**	**663,352**	**625,201**

Appendix 3
Comparison of Responsible Investment Activity Quarter ending 30 June 2010
Core Equity Fund Managers and the Local Authority Pension Fund Forum (LAPFF)

Fidelity	Capital International	LAPFF
Environmental Issues		
Fidelity met with BP to discuss the shareholder resolution relating to the plans to extract oil from the Canadian tar sands in order to form their view about how to vote at the Annual General Meeting on the issue.	Capital met with both BP and Shell to discuss the shareholder resolutions requesting further information on the plans for extraction from the Canadian tar sands. In addition they attended shareholder briefings held by the companies to understand the issues more.	The LAPFF met with BP and Shell and the shareholders putting forward the resolutions against the management to understand all sides of the argument. The Forum believes that the dialogue between management and shareholders which this issue has started is positive step forward for engagement.
Governance / Remuneration Issues		
During the quarter Fidelity voted against management at a number of AGMs when they felt the remuneration policies were not aligned to shareholder interests or not in line with best practice on transparency. Specifically they met with Deutsche Boerse to discuss how executive remuneration relates to performance targets. They also met with Axa to discuss the severance arrangements for the Chief Executive Officer.	Following up from engagement activity with HSBC in the early part of the year, Capital met with the Chairman who informed them that the new Chair of HSBC's Remuneration Committee will be undertaking a review of policy with consultation with shareholders starting in the summer. This will seek to manage the level of remuneration for senior staff.	The LAPFF has undertaken joint lobbying activity with the National Association of Pension Funds (NAPF) of the FTSE 350 regarding director's pensions. They are seeking more transparency of pension benefits in companies' remuneration policies to enable shareholders to make informed decisions.
Other Engagement activity		
Fidelity voted at 31 AGMs during the quarter and took time to discuss with management the resolutions being put forward to ensure that the resolutions are in the best interests	Capital met with Kazakhmys, the Kazakstan mining company to discuss their poor safety record and the number of fatalities. They emphasised action on this issue	The LAPFF continued it's engagement with Vedanta on the various issues arising in this mining company's operations in India in respect of safety and community

Fidelity	Capital International	LAPFF
of the Fund as a shareholder. They also met with BG Group to discuss governance issues and strategy.	needed to come from the top of the company. Since the engagement the company has introduced additional training and more safety devices and Capital believe they are committed to the target of zero fatalities. Capital met with a number of other companies in the quarter in advance of many AGMS to discuss the resolutions to be put forward and shareholders' views of them.	relations. The LAPFF believe the underlying problem is the weak governance framework and dominance of one individual who is a majority shareholder. The forum is working with other forums to seek to bring a shareholder resolution recommending improvements.

Other General Issues

UK Investor Stewardship Code

At the beginning of July the Financial Reporting Council published the first Stewardship Code for Institutional Investors. The aim of the Code is to improve the quality of corporate governance through promoting better dialogue between shareholders and company boards and encouraging more transparency about the way investors oversee companies they own. The Code includes principles on:

- The monitoring of investee companies;
- The escalation of activities taken to protect or enhance shareholder value;
- Collective engagement;
- Voting policy;
- Managing conflicts of interest; and
- Public reporting and reporting to clients.

The Financial Reporting Council is encouraging all institutional investors to report publicly on the extent to which they follow the Code. In parallel the Financial Services Authority is proposing to amend its Conduct of Business sourcebook to require UK authorised firms managing investments on behalf of professional clients to disclose their commitment to the Code.

Officers are discussing the Code with the fund managers and are awaiting guidance from the LAPFF, which will be published later in the year on how to apply the Code and hold fund managers to account.

Reviews of Corporate Governance

In addition to the work in the UK described above the European Commission and the US authorities are undertaking consultations on ways to improve corporate governance. These reviews are looking both from the company's perspective in terms of how companies are run and investors' perspective in terms of responsible ownership.

Appendix 4

Pension Fund Budget Management - monitor at 30th June 2010

	2010/11 Budget £'000	Budget to 30 June 2010 £'000	Actual to 30 June 2010 £'000	Over/under (-) at 30 June 2010 £'000	Explanations of significant variations
Income					
Contributions and benefits:					
Employee Contributions	(10,700)	(2,675)	(2,712)	(37)	
Employer Contributions	(36,000)	(9,000)	(8,534)	466	
Transfer Values Received	(5,100)	(1,275)	(2,818)	(1,543)	Transfer values are very unpredictable in terms of volume and timing
Total income	**(51,800)**	**(12,950)**	**(14,064)**	**(1,114)**	
Expenditure:					
Pensions and other benefits	30,000	7,500	7,740	240	
Transfer values paid	5,300	1,325	708	(617)	Transfer values are very unpredictable in terms of volume and timing
Administrative expenses	800	200	148	(52)	
Total expenditure	**36,100**	**9,025**	**8,596**	**(429)**	
Net addition from dealings with members	**(15,700)**	**(3,925)**	**(5,468)**	**(1,543)**	
Returns on Investment:					
Investment income	(15,200)	(3,800)	(1,986)	1,814	Dividends from companies continue to be low.
Taxation	190	48	91	43	
Investment management expenses	3,300	825	449	(376)	The timing of the submission of invoices from fund managers affects this figure
Net return on investments	**(11,710)**	**(2,927)**	**(1,446)**	**1,481**	
Totals	**(27,410)**	**(6,852)**	**(6,914)**	**(62)**	

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Agenda Item 9

Haringey Council

Agenda item:

Pensions Committee	On 16 September 2010

Report Title: **Late payment of contributions**	
Report of **Director of Corporate Resources** Signed : J.Parker 7/9/10	
Contact Officer : **Nicola Webb – Corporate Finance** **Telephone 020 8489 3726**	
Wards(s) affected: **All**	Report for: Non key decision

1. Purpose of the report

1.1 To report to the Committee on the extent of late payment of employee and employer contributions to the Fund and to consider actions to improve the situation as requested by the Pensions Committee at its meeting in June 2010.

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 To include a clear statement of employers' responsibilities in respect of contributions in the Pensions Administration Strategy Statement (PASS) which will be prepared for the Committee's meeting on 1st November 2010.

4.2 To report to the Pensions Committee on a quarterly basis on the timing of the payment of contributions.

5. Reason for recommendations

5.1 Clearly setting out responsibilities will ensure employers can be in no doubt as to the requirements and reporting to the Pensions Committee will give weight to discussions with employers, as well as keeping the Pensions Committee informed.

6. Other options considered

6.1 Charging interest on contributions paid late was considered, but rejected on the basis that the cost of administering the collection of interest would outweigh the amount of interest which could be collected.

7. Summary

7.1 The Local Government Pension Scheme regulations require employers to pay contributions within set timescales and the external auditors consider this to be a key issue in their audit of the pension fund accounts.

7.2 Five employers paid contributions late more than once during 2009/10. During 2010/11 so far, only 2 employers have paid late and 1 of those was on one occasion only.

8. Head of Legal Services Comments

8.1 The report correctly identifies the statutory position regulating payments made by employing authorities to the administering authority under the relevant provisions of the Pensions Act 1995, the Occupational Pension (Scheme Administration) Regulations 1996 and the Local Government Pension Scheme (Administration) Regulations 2008. Further the report draws attention to the discretion available to an administering authority under Regulation 44 of the 2008 Regulations to require an employing authority to pay interest on any amount overdue. However, it is reasonable for an administering authority to take into account the costs involved in the administration of such interest payments in deciding whether or not to exercise this discretion.

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 There is a clear regulatory requirement for contributions to be paid on time and the majority of contribution income to the Fund is received on time. The contributions paid late in 2009/10 amounted to only 0.4% of the Fund's monthly income from contributions.

11.2 The cost of collecting interest outweighs the benefit of charging. The Treasury and Pension Teams will work together to improve the timeliness of contribution receipts.

12. Use of appendices /Tables and photographs

None

13. Local Government (Access to Information) Act 1985

Not applicable

14. Background and regulatory requirements

14.1 At the Pensions Committee meeting on 21st June 2010 the timing of the receipt of contributions from employees and employers to the Pension Fund was discussed and the Committee requested that a report with further detail be prepared for the September meeting. Grant Thornton, the external auditors, reported that they would be looking into late payment of contributions during their audit of the pension fund accounts.

14.2 The Local Government Pension Scheme Administration regulations require all employers in the scheme to pay contributions into the Fund within the timescales set out in the Pensions Act 1995. This Act requires that employee contributions deducted from salaries are paid into the Pension Fund no more than 19 days after the end of the month in which they were deducted.

15. Payment of contributions

15.1 The Pension Fund receives employee contributions of £2.6m per month and £2.1m of this is from Haringey Council employees. Employer contributions amount to £8.5m per month with £7.3m from Haringey Council. Therefore only 15% of the contribution income comes from employers other than the Council.

15.2 During 2009/10 five employers paid late more than once. These are detailed below with the average number of days late.

	Occasions late	Average days late	Average monthly contributions
Mulberry School	2	6	£11,000
St. Thomas Moore	2	14	£19,000
John Loughborough School	6	32	£5,000
Europa	7	64	£700
TLC	11	24	£8,000

Another five employers paid late on one occasion each during the year.

15.3 The total of the monthly contributions from these employers amounts to £43,700, which is only 0.4% of the £11.1m received in contributions every month.

15.4 In 2010/11 so far only 2 employers have paid late, as per the table below:

	Occasions late	Average days late	Average monthly contributions
Europa	1	30	£900
TLC	3	11	£7,600

Europa have paid only one month's contributions late and TLC have been late every month so far, although the number of days they are late has fallen to 4 days in the latest month.

16. Options for improvement

16.1 The Local Government Pension Scheme regulations provide Pension Funds with the ability to charge interest on late payments of contributions. It is possible to charge interest at 1% above base rate, which currently amounts to 1.5%. If this level of interest was applied to the late payments during 2009/10 the amount collected would only be £304, with all bar one of the invoices being raised for less than £25. It is considered that the administration which would be involved in raising invoices and ensuring they are paid would outweigh the benefit of charging.

16.2 The second and favoured option is to reinforce the requirement of payments to be made on time with the small number of employers who pay late. This could be done through the inclusion of responsibilities in the proposed Pensions Administration Strategy Statement (PASS) and by follow up with the employers concerned each month they are late. Being able to state that the Pensions Committee are closely monitoring the situation will give weight to this.

16.3 Communications are already happening more regularly with the employers who are consistently late and this has shown improvement in 2010/11 as demonstrated above in paragraph 15.4.

16.4 It is proposed to report to the Pensions Committee on a quarterly basis on the payment of contributions to enable the Committee to keep up to date with progress.

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Agenda Item 10

Haringey Council

Agenda item:

Pensions Committee	On 16 September 2010

Report Title. **Pension Fund Treasury Management Strategy Statement**	
Report of **Director of Corporate Resources** Signed : J. Parker 7/9/10	
Contact Officer : **Nicola Webb – Corporate Finance** **Telephone 020 8489 3726**	
Wards(s) affected: **All**	Report for: Non key decision

1. Purpose of the report

1.1 To consider a proposed treasury management strategy statement for the investment of pension fund cash.

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 proposed Treasury Management Strategy Statement for pension fund cash be approved.

5. Reason for recommendations

5.1. As a separate bank account is being introduced for the Pension Fund, it is considered best practice for the Pensions Committee to have agreed a specific Treasury Management Strategy Statement. Mirroring the Council's treasury management strategy statement is considered the most efficient way of doing this.

6. Other options considered

6.1. Not applicable.

7. Summary

7.1 The revised LGPS (Management & Investment of Funds) regulations require Pension Funds to have a bank account which is separate from the Council's by 1st April 2011.

7.2 The Pension Fund holds cash in-house for the purposes of paying benefits and pending investments. It is best practice for the Pensions Committee to agree a specific treasury management strategy statement for investment of this cash.

7.3 It is proposed that the pension fund treasury management strategy mirrors that of the Council's as this is considered a prudent strategy suitable for short term cash. The only change from the Council's reflects a restriction by the Debt Management Office regarding the taking of deposits from Pension Funds.

8. Head of Legal Services Comments

8.1 The report correctly identifies the statutory requirement under Regulation 6 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 that from 1 April 2011 a separate bank account is required for the Pension Fund for all monies held at that date and for all monies received on or after that date. In this light the proposals made concerning the nature and content of an appropriate Treasury Management Strategy Statement are reasonable ones.

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 separate treasury management strategy statement for the Pension Fund will not change the amount of interest earned by the Fund, as the Fund's cash is currently being invested in accordance with the Council's strategy.

11.2 However it will demonstrate transparency in dealings between the Council and the Pension Fund, which the Pension Fund's auditors have been seeking.

12. Use of appendices /Tables and photographs

12.1 Appendix 1: Draft Pension Fund Treasury Management Strategy Statement

13. Local Government (Access to Information) Act 1985

- Haringey Council's Treasury Management Strategy Statement 2010/11

14. Separate Bank Account

14.1 The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2009 set out the parameters within which Local Government Pension Funds should invest their funds. These regulations require that Pension Funds operate a separate bank account for pensions from 1st April 2011.

14.2 Historically local authorities have operated one bank account for transactions both from the Council and the Pension Fund, although separate accounting arrangements have always been in place. It has been decided that separate bank accounts should be in place to demonstrate transparency between the Council and the Pension Fund.

14.3 A project team of officers was set up to ensure a separate bank account is in place by the regulatory deadline. This is progressing well and it is planned that the separate arrangements will go live in the autumn of this year.

15. Pension Fund in-house cash balances

15.1 The Pension Fund's benchmark does not have an allocation to cash, however cash is held for a number of reasons:

- The fund managers hold cash at the custodian bank to facilitate the buying and selling of stocks.

- Cash is held at the Council as a result of contributions coming in and to enable the payment of pension benefits. The surplus of contributions in over benefit payments out is around £1m per month.
- It was decided at the last investment strategy review in 2007 to set aside cash from the monthly surpluses for investments in property and private equity. Due to the economic climate there have not been as many opportunities to invest as anticipated.

15.2 This has resulted in cash balances held in-house amounting to around £66m currently. Theses balances are invested in a number of fixed term deposits and AAA rated money market funds within the limits of the Council's Treasury Management Strategy Statement which is agreed by full Council in advance of each financial year.

15.3 The cash held by the fund managers is invested at the Fund's custodian bank, Northern Trust in an AAA rated money market fund. The amount varies depending on the number of outstanding transactions, but is usually a very small percentage of their portfolios. This strategy does not cover this cash.

16. Treasury Management Strategy Statement for the Pension Fund

16.1 With the introduction of more transparent arrangements for the Pension Fund's cash transactions in the bank account, it is considered to be best practice for the Committee responsible for the Pension Fund's investment strategy to approve the treasury management strategy being used to invest the in-house cash.

16.2 It is therefore proposed that the strategy attached at Appendix 1 be applied to the Pension Fund cash held in-house pending investment with the Pension Fund's fund managers. The proposed strategy is based on the one used for the investment of the Council's cash. It is a risk averse strategy appropriate for the investment of cash held for the payment of pension benefits and for investment by the fund managers.

16.3 The strategy proposes primarily investing in a small number of UK banks and in AAA rated money market funds. The only differences from the Council's strategy are:

- The Council's strategy lists the Debt Management Office (DMO), which is part of HM Treasury as the default option with no limit. However at the current time the DMO will not accept deposits from the Pension Fund and so an alternative default option is required. It is proposed to use an AAA rated money market fund which invests only in government securities as the default option for the Pension Fund and so a limit of £30m has been included for the Blackrock Sterling Liquidity Fund, which is recommended by the Council's treasury management advisers. It is proposed the DMO remains on the list in case their decision is reversed.

- In addition it is proposed that the Northern Trust Money Market Fund is available to invest in. Northern Trust is the Pension Fund's custodian bank, which means it is responsible for the safekeeping of all the Fund's assets. The use of the Northern Trust money market fund will facilitate a more efficient process of transferring cash to the fund managers.

16.4 In agreeing to this strategy, the Committee are accepting the risks inherent with investing cash. The primary risk is that of default by a counterparty. In this event the Pension Fund will bear the total of any loss relating to Pension Fund specific deposits. To mitigate this risk officers keep all the counterparties on the lending list under constant review with the support and advice of the Council's treasury management advisers, Arlingclose.

APPENDIX 1

Pension Fund Treasury Management Strategy Statement

1 Introduction

This document sets out the limits within which the management of Pension Fund cash held internally is carried out. This should be read in conjunction with the Council's Treasury Management Strategy Statement and the Pension Fund's Statement of Investment Principles.

2 Compliance with guidance

All treasury management activities will be carried out in accordance with the CIPFA Treasury Management Code of Practice and the guidance issued by the Communities and Local Government (CLG) Department on Local Government Investments in England.

To comply with the CLG's guidance, the Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:
- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

3 Risk Management

The Pension Fund is responsible for the meeting the costs which would be incurred in the event of default by a counterparty. Although this strategy is prudent, there is always a risk. In order to mitigate this risk the Council operates a real time information monitoring process. With the advice and support of the Council's treasury management advisers the strength of counterparties is monitored by reviewing credit ratings from all three agencies, credit default swaps, share price movements, corporate news and news concerning government support. Where potential issues are spotted, the counterparty will be removed from the list with immediate effect until officers and the advisers are confident that the issues have been resolved or do not affect the likelihood of the return of cash deposits.

4 Types of investments

Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Specified investments are denominated in sterling, mature within 12 months and meet the Council's high credit quality standard. This standard is a minimum long term credit rating of A+ from all three credit rating agencies. These are listed in section 5 and the majority of the Pension Fund investments will fall into this category.

The addition of money market funds investing only in government securities is the only difference to the Council's list of specified investments.

The non specified investments selected for use by the Council are gilts and bonds, as listed in section 6.

Sections 5 and 6 set out the counterparties with whom the Pension Fund can invest, along with the limit for each counterparty. These are set to diversify risk by spreading the investments.

5 Specified Investments

Specified Investments are those that meet the criteria in the CLG Guidance, i.e. the investment:

- is sterling denominated
- has a maximum maturity of 1 year
- meets the "high" credit criteria as determined by the Council or is made with the UK government or is made with a local authority in England, Wales and Scotland.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

Specified Investments identified for the Council's use are:

- Deposits in the DMO's Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- Certificates of deposit with banks and building societies
- Gilts : (bonds issued by the UK government)
- Bonds issued by multilateral development banks
- AAA-rated Money Market Funds with a Constant Net Asset Value
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

For credit rated counterparties, regard will be had to the credit ratings assigned by Fitch, Moody's and Standard and Poor's. The Council will also take into account other information including corporate developments and market sentiment towards investment counterparties.

Specified investments will be made with the institutions and the limits set out overleaf:

Instrument	Country	Counterparty	Maximum Limit of Investments in Group (where applicable)	Maximum Term of Investment
Term Deposits	UK	DMO's Debt Management Account Deposit Facility	No limit	6 months
Term Deposits	UK	Other UK Local Authorities	£30m (per Local Authority)	364 days
Term Deposits/ Call Accounts	UK	Santander UK Plc	£20m	364 days/ Instant access
Term Deposits/ Call Accounts	UK	Lloyds TSB Bank Plc (Lloyds Banking Group)	£20m	364 days/ Instant access
Term Deposits/ Call Accounts	UK	Bank of Scotland Plc (Lloyds Banking Group)	£20m	364 days/ Instant access
Term Deposits/ Call Accounts	UK	Barclays	£20m	364 days/ Instant access
Term Deposits/ Call Accounts	UK	Clydesdale	£20m	364 days/ Instant access
Term Deposits/ Call Accounts	UK	HSBC	£20m	364 days/ Instant access
Term Deposits/ Call Accounts	UK	Nationwide	£20m	364 days/ Instant access
Term Deposits/ Call Accounts	UK	Royal Bank of Scotland*	£20m	364 days/ Instant access
AAA rated Money Market Funds (MMFs)	Ireland	Goldman Sachs Liquid Reserves Fund	£15m**	Instant access
AAA rated Money Market Funds (MMFs)	Ireland	Henderson Liquid Assets Sterling Fund	£15m**	Instant access
AAA rated Money Market Funds (MMFs)	Ireland	RBS Global Treasury Fund	£15m**	Instant access
AAA rated Money Market Funds (MMFs)	Ireland	Northern Trust Global Cash Fund	£15m**	Instant access
AAA rated Govt Money Market Funds	Ireland	Blackrock Sterling Liquidity Fund	£30m	Instant access

* Approval of this bank also approves the use of the Council's current banker which is Nat West Bank, part of the Royal Bank of Scotland Group. Therefore, when maximum deposits with RBS are made (£20m) this group limit could be exceeded temporarily by the current account credit balance remaining overnight with Nat West Bank. There will also be the usual daylight exposure.

** Up to £15m can be invested in any one non government money market fund subject to a group limit of £45m in non government money market funds.

NB: All of the above banks and building societies are members of the UK Government Credit Guarantee Scheme.

6 Non Specified Investments

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	In-house use	Maximum maturity	Capital expenditure?	Maximum Counterparty Limit
Gilts and bonds ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government, e.g. GEFCO ▪ Sterling denominated bonds by non-UK sovereign governments	✓ (on advice from treasury advisor)	<u>*6 years*</u>	No	£60m
Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies (e.g. govt bonds issued by HBOS / RBS / Nationwide, etc)	✓	<u>*6 years*</u>	Yes	£60m

Note: In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

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

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