Haringey Council

Corporate Committee

TUESDAY, 26TH NOVEMBER, 2013 at 19:00 HRS - CIVIC CENTRE, HIGH ROAD, WOOD GREEN, N22 8LE.

MEMBERS: Councillors Adje, Amin (Vice-Chair), Diakides, Griffith, Jenks, Khan, Meehan (Chair), Whyte, Williams and Wilson

AGENDA

1. APOLOGIES (IF ANY)

2. URGENT BUSINESS

The Chair will consider the admission of any late items of urgent business. (Late items will be considered under the agenda items where they appear. New items will be dealt with at items 16 and 21).

3. DECLARATIONS OF INTEREST

A member with a disclosable pecuniary interest or a prejudicial interest in a matter who attends a meeting of the authority at which the matter is considered:

(i) must disclose the interest at the start of the meeting or when the interest becomes apparent, and
(ii) may not participate in any discussion or vote on the matter and must withdraw from the meeting room.

A member who discloses at a meeting a disclosable pecuniary interest which is not registered in the Register of Members' Interests or the subject of a pending notification must notify the Monitoring Officer of the interest within 28 days of the disclosure.

Disclosable pecuniary interests, personal interests and prejudicial interests are defined at Paragraphs 5-7 and Appendix A of the Members' Code of Conduct.

4. **DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS**

To consider any requests received in accordance with Part 4, section B, Paragraph 29 of the Council's Constitution.

5. **MINUTES (PAGES 1 - 14)**

To consider and agree the unrestricted minutes of the meeting held on 19 September 2013.

6. **PENSION FUND: ACTUARIAL VALUATION 31ST MARCH 2013 (PAGES 15 - 58)**

Report of the Director of Corporate Resources to consider the draft actuarial valuation report as at 31st March 2013, including the methodology and assumption used by the actuary.

7. **PENSION FUND QUARTERLY UPDATE (PAGES 59 - 72)**

Report of the Director of Corporate Resources to report the following in respect of the three months to 30th September:

- Investment asset allocation
- Investment performance
- Responsible investment activity
- Budget management
- Late payment of contributions
- Communications

8. **LOCAL GOVERNMENT PENSION SCHEME IT SYSTEM - CONTRACT RENEWAL (PAGES 73 - 78)**

Report of the Interim Head of Human Resources and Organisational Development.

9. **TREASURY MANAGEMENT UPDATE (PAGES 79 - 88)**

Report of the Director of Corporate Resources to update the Committee on the Council's treasury management activities and performance in the quarter to 30th September 2013.

10. **TREASURY MANAGEMENT STRATEGY STATEMENT - 2014/15 - 2016/17 (PAGES 89 - 116)**

Report of the Director of Corporate Resources to present the proposed Treasury Management Strategy Statement and draft Prudential Indicators for 2014/15 to 2016/17 to this Committee prior to them being scrutinised by Overview & Scrutiny Committee, represented to Corporate Committee in January 2014 and finally to full Council for final approval.

11. INTERNAL AUDIT PROGRESS REPORT - 2013/14 QUARTER 2 (PAGES 117 - 170)

Report of the Director of Corporate Resources to advise the Committee of the work undertaken during the first quarter by the Internal Audit Service in completing the 2013/14 annual audit plan together with the responsive and housing benefit fraud investigation work, and to provide details of the work undertaken by Council's Human Resources business unit in supporting disciplinary action taken across all departments by respective Council Officers and consultants employed by the Council.

12. EXTERNAL AUDIT PROGRESS UPDATE (PAGES 171 - 178)

Report of Grant Thornton.

13. ANNUAL AUDIT LETTER (PAGES 179 - 192)

Report of Grant Thornton.

14. SENIOR STAFF STRUCTURES UPDATE (PAGES 193 - 206)

Report of the Chief Executive.

15. DELEGATED DECISIONS, SIGNIFICANT ACTIONS, URGENT ACTIONS (PAGES 207 - 214)

Report of the Head of Legal Services to inform the Corporate Committee of non executive delegated decisions, significant actions and any urgency decisions taken by the Chair.

16. ANY OTHER BUSINESS OF AN URGENT NATURE

To consider any items admitted at item 2 above.

17. EXCLUSION OF PRESS AND PUBLIC

The following items are likely to be subject of a motion to exclude the press and public from the meeting as they contain exempt information as defined in Section 100a of the Local Government Act 1972; paragraphs 1, 2 and 3, information relating to any individual, information which is likely to reveal the identity of an individual and information relating to the financial or business affairs of any particular person (including the authority holding that information).

18. EXEMPT MINUTES (PAGES 215 - 224)

To consider and agree the exempt minutes of the Corporate Committee meeting held on 19 September 2013, and to received the minutes of the CEJCC meeting held on 2 July 2013 and the Special Committees held on 1 and 23 October 2013.

19. LOCAL GOVERNMENT PENSION SCHEME IT SYSTEM - CONTRACT RENEWAL (PAGES 225 - 226)

To consider exempt information pertaining to agenda item 8.

20. DELEGATED DECISIONS / SIGNIFICANT ACTIONS / URGENT ACTIONS (PAGES 227 - 230)

To consider exempt information pertaining to agenda item 15.

21. ANY EXEMPT ITEMS OF URGENT BUSINESS

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Monday 18 November 2013

MINUTES OF THE CORPORATE COMMITTEE
THURSDAY, 19 SEPTEMBER 2013

Councillors: Adje, Allison, Amin (Vice-Chair), Egan, Griffith, Jenks, Khan, Meehan (Chair), Williams and Wilson

Apologies: Councillor Diakides, Councillor Whyte, Keith Brown

Also present: Michael Jones
Roger Melling
John Raisin

MINUTE NO.	SUBJECT/DECISION	ACTION BY
CNCL258.	**APOLOGIES (IF ANY)** Apologies for absence were received from Cllr Diakides, for whom Cllr Egan was substituting, from Cllr Whyte, for whom Cllr Allison was substituting, and from Keith Brown.	
CNCL259.	**URGENT BUSINESS** There were no new items of urgent business.	
CNCL260.	**DECLARATIONS OF INTEREST** There were no declarations of interest.	
CNCL261.	**DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS** There were no such items.	
CNCL262.	**MINUTES** **RESOLVED** That the minutes of the meeting held on 27 June 2013 be approved as a correct record and signed by the Chair.	
CNCL263.	**PENSION FUND QUARTERLY PERFORMANCE UPDATE** The Committee received the Pension Fund quarterly update. It was noted that the Fund had increased to £881m as at the end of July 2013, and the overall performance for the fund demonstrated the influence of moving to passive management arrangements. The Committee asked about the variance in the budgeted and actual Pensions & Benefits expenditure, as indicated in the budget management position at paragraph 16 of the report, and it was agreed that a response on this issue would be provided by officers. In response to a question regarding the lack of engagement on social issues by BlackRock, it was reported that this was an issue that officers raised with the company on a regular basis, whose response was that they were	HoT&P

	focussing on governance matters. **RESOLVED** That the information provided in respect of the activity in the three months to 30th June 2013 be noted.	
CNCL264.	**PENSION FUND ANNUAL REPORT AND ACCOUNTS AND ISA 260 AUDIT REPORT** The Committee received the Pension Fund Annual Report and Accounts, and ISA 260 audit report. In response to a question from the Committee regarding the date of the next triennial valuation, it was reported that it was expected that this would be completed by the end of the current calendar year. It was confirmed that the Chief Financial Officer was the post responsible for the co-ordination of the Fund Management and Pension Administration arms of the Pension Service. The Committee asked why Pensions AGM meetings were no longer held, and it was advised that a decision had been taken to discontinue these on the basis of available resources and low attendance at previous meetings; it was noted that there was no requirement to hold such meetings. In response to a question from the Committee regarding performance assessment in compliance with Myners Principles, it was reported that officers continue to routinely meet with investment managers, and that arrangements for Committee Members to also meet with investment managers could be arranged should Members wish. It was confirmed, in response to a question from the Committee, that no matters had been referred on to the Pensions Ombudsman. With regard to the movement in the actuarial deficit as set out on page 54 of the agenda, in particular 'investment returns lower than expected', it was agreed that officers would provide information on what the anticipated investment return had been. Officers provided some clarification around Additional Voluntary Contributions, where individuals wished to transfer additional funds further to their usual pension payments, and it was noted that such payments were reflected in a specific line in the Pension Fund accounts. It was confirmed that 90% of the Fund was passively managed, with the remaining 10% managed actively in property and private equity. With regard to the reported £200m increase in liabilities, officers advised that this was due to the way in which liabilities were calculated and confirmed that this matter was taken very seriously; the outcome of the forthcoming triennial valuation would be important with regards to providing more information around this issue. In response to a question from the Committee regarding whether there were any tax implications from investing overseas, it was agreed that a briefing on this would be provided outside the meeting. It was also agreed that this issue would be a topic for discussion at the next meeting of the Pensions Working Group.	ADF / HoT&P HoT&P

The Fund's external auditor, Subarna Banerjee, from Grant Thornton, provided an outline of the audit findings for the Pension Fund and confirmed for the record that Grant Thornton remained independent of the Pension Fund. The Committee was asked whether anyone was aware of any fraud against the Fund, and it was noted that no declaration was made that anybody was aware of any such fraud. It was anticipated that the auditors would be providing the Fund with an unqualified audit opinion.

In response to a question from the Committee regarding late payments to the Fund, it was reported that all contributing bodies were being encouraged to set up direct debits or standing orders for payments and that in the most recent quarter there had only been one late payment. Officers were working to ensure that this position continued to improve.

It was noted that new requirements for the governance of Pensions Funds were being consulted upon; changes are planned to come into force from 1 April 2014. Appropriate arrangements would be established in order to comply with these changes and the Corporate Committee will be properly consulted before implementation.

RESOLVED

That the Committee approve the Pension Fund Annual Report and Accounts for 2012-13.

The Committee thanked all Council staff involved in preparing the Pension Fund accounts for their efforts, and thanked Grant Thornton for their work on the audit.

CNCL265. AWARD OF CONTRACT FOR PENSION FUND INVESTMENT ADVISORY SERVICES

The Committee received the report on the award of contract for Pension Fund Investment Advisory Services. A mini-competition process had been entered into under the framework agreement undertaken by Norfolk County Council, as a result of which the report recommended that the Committee approve the award of the Pension Fund Investment Advisory Services contract to Mercer Ltd for a period of 3 years.

In response to a question from the Committee regarding the difference in price between firms C and D, it was noted that the difference was significant. Officers reported that they were confident in the quality of both companies C and D.

RESOLVED

That the Committee approve the award of the Pension Fund Investment Advisory Services contract to Mercer Ltd for a period of 3 years from 6th November 2013 with the Council having the option to offer an extension for a further year, at an estimated cost of £240,000 over the initial period.

CNCL266.	**PENSION FUND: LONDON COLLECTIVE INVESTMENT VEHICLE** The Committee received the report on the London Collective Investment Vehicle, and was asked to support the establishment of such a vehicle and approve the expenditure of up to £25,000 as a contribution towards its establishment. In response to a question from the Committee, it was understood that a number of other boroughs had indicated their support for the proposal, subsequent to the production of the report. The Chief Executive indicated that there was broad support for the proposal at chief executive level across London boroughs. With regard to the likelihood of Haringey joining any such vehicle once established, it was reported that this would depend on the outcome of this piece of work; it was emphasised that such a vehicle would only be entered into if it were in the best interests of the Pension Fund to do so. The Committee asked about the contribution for which approval was sought – it was reported that the Council would expect the project to be developed in line with the proposals set out in paragraph 5.8 of the report. It was confirmed that officers would be in a position to ensure that the money was being spent appropriately and that value for money was being achieved. In response to a question regarding the potential for more money being sought at a later date, it was reported that there was no intention that a greater contribution would be required. In the event the further funding were needed, such a request would need to come back to the Committee. It was anticipated that undertaking this activity voluntarily at this stage would be preferable to the potential of being forced to at a later date. **RESOLVED** i) That the Committee should support further investigations into the potential establishment of a London-wide Collective Investment Vehicle (CIV). ii) That the Committee approve expenditure of up to £25,000 as a contribution towards the legal and other related costs in connection with the possible establishment of the CIV.	
CNCL267.	**PENSION FUND: ASSET ALLOCATION ADVICE** The Committee received the Pension Fund Asset Allocation report, which reflected the fourth of four sets of asset allocation moves to the strategic benchmark. As set out in paragraph 13.4 of the report, it was intended that a report setting out recommendations for adjusting the asset allocation policy would be brought to the next meeting of the Committee. Prior to consideration of this report, it was agreed that training on the different asset classes and investment vehicles should be arranged for all Committee Members in order to support the decision-making process. Officers would identify some suitable dates for this training and seek the availability of Members in due course.	ADF / HoT&P

	As the current contract for Pensions Investment Advisory Services was coming to an end, the Committee wished to place on record its thanks to Aon Hewitt for their advice over the course of the contract. **RESOLVED** That the asset allocation moves set out in the Advice Table on page 6 of appendix 1 to the report be implemented.	
CNCL268.	**TREASURY MANAGEMENT 2013/14 MID-YEAR ACTIVITY AND PERFORMANCE UPDATE** The Committee received the Treasury Management 2013/14 Mid Year Activity and Performance Update report. In response to a question from the Committee, the Director of Corporate Resources confirmed that she was satisfied that the mechanisms in place to monitor the fundamental principles of the Council's Treasury Management policy were robust. With respect to the 'A' rating for Natwest SIBA on the table in paragraph 14.3, it was noted that this was assessed on a different style of rating from the money market funds, and that investment of a limited proportion of funds within this type of account was fully in accordance with the Treasury Management Strategy. It was further noted that this was an instant access account, and so funds could be retrieved quickly from this account if required; investment positions were reviewed on a daily basis. It was clarified that the y-axis of the graph in paragraph 15.2 of the report related to millions of pounds. The Committee asked about the deposits shown in the table in paragraph 15.4 of the report, and it was confirmed that these were all short term investments, ranging in duration from overnight up to 32 days. With regard to where these investments were reflected within the Statement of Accounts, it was confirmed that these were the 'Short Term Investments' line on the Balance Sheet. The Committee queried the expected interest amount of £40k as set out in paragraph 16.2 of the report, on the basis of the interest rates quoted, and it was agreed that officers would double-check this calculation for accuracy. *Post-meeting note: Further to the query raised by the Committee with regard to Paragraph 16.2, it was confirmed that, while this Paragraph of the treasury update report stated that anticipated income in the half year to September is £40,000, this is in fact the anticipated income for a quarter only. The average investment balance is approximately £50 million and at an average return of 0.32%, the half yearly anticipated income is £80,000.* **RESOLVED** That Members note the treasury management activity and performance during the first half of 2013/14.	ADF / HoT&P
CNCL269.	**STATEMENT OF ACCOUNTS 2012/13 AND ISA 260 AUDIT REPORT**	

	The Committee received the Statement of Accounts 2012/13 and ISA 260 audit report. It was noted that the report reflected a significant improvement from the previous year, and the auditors' report indicated that there would be an unqualified audit opinion.	
	In response to a question from the Committee regarding the level of reserves, it was reported that the level reflected in the statement of accounts was partly due to the timing of transactions, and there had also been a small increase due to underspends; the audit report moreover indicated that the Council's level of reserves was comparatively low. The Committee noted that publicity was not included in this year's report, but had been previously, and asked why this was. Officers reported that it was not a statutory requirement to include publicity details and it was therefore omitted in order make the statement of accounts as succinct as possible. It was agreed that a briefing on the publicity figures would be circulated outside the meeting, but would not form part of the formal accounts. Paul Dossett, Grant Thornton, advised that it had been a requirement to include publicity in the accounts in previous years under CIPFA guidance, but that this requirement had changed and it was no longer a requirement.	ADF
	The Committee asked about the net loss indicated in off-street parking services, and it was agreed that officers would seek a response to this from the service. In response to a question regarding the Annual Governance Statement, the Director of Corporate Resources advised that, while this was not a fully comprehensive list, it covered all substantive and material matters as required.	ADF
	Paul Dossett introduced the ISA 260 audit report, and advised that, against the context of the audit problems encountered in the previous year, the auditors were this year in a position to provide an unqualified audit opinion and Value for Money conclusion well within the statutory deadline. Key issues were set out in the executive summary, which recognised the considerable effort that had been made to improve the quality of the accounts and documentation since last year and noted that an area for continued improvement was property, plant and equipment and the documentation around these issues. It was noted that no additional fees had been incurred this year.	
	With regard to the unadjusted misstatements listed within the report, the Committee asked what steps were being taken to ensure that such matters could be avoided in future. Nick Walkley, Chief Executive, advised that as part of the restructure of Place and Sustainability, a new function had been established to deal with asset valuations more comprehensively than previously and that this should assist. Paul Dossett assured the Committee that his view was that an unqualified opinion would be given by the deadline, and that this would indicate that the Council had managed its resources effectively this year.	
	The Committee asked about the reduction in audit fee for this year. It was reported that some of this reduction was due to additional fees	

	incurred last year not being incurred this year, but the reduction was largely as the result of the closure of the central Audit Commission function, which had led to an increase in competition. With regard to the issues which required an answer outside the meeting, it was reported that these would be responded to within two weeks of the meeting – any cases where this would not be possible would be raised directly with the Chair. **RESOLVED** i) That the Committee note the contents of the report and the oral updates provided at the meeting by Grant Thornton. ii) That the Committee approve the Statement of Accounts 2012/13, subject to any final changes required by the conclusion of the audit, being delegated to the Chief Financial Officer in consultation with the Chair. iii) That the Committee note the ISA 260 report of the auditors, Grant Thornton, and approve the management responses in the Grant Thornton action plan contained within the ISA260 report. The Chief Executive placed on record his thanks to Council officers for their efforts which had led to such a significant improvement in the final accounts since the previous year and also to Grant Thornton for their work on the audit of the accounts. The Committee also expressed their thanks to Council officers and to Grant Thornton.	
CNCL270.	**EXTERNAL AUDIT PROGRESS REPORT** The Committee received the update report from Grant Thornton. The Committee noted the reference in the report to proposed changes to the 2014/15 Code of Practice on Local Authority Accounting, and requested that Members receive a briefing on these changes. It was agreed that officers would brief Committee Members on these issues. **RESOLVED** That the report be noted.	ADF
CNCL271.	**EXTERNAL AUDIT REPORT - FINANCIAL RESILIENCE** The Committee received the follow up report on the Review of the Council's Arrangements for Securing Financial Resilience. The Committee noted that the report indicated some concerns regarding the arrangements for the Corporate Committee, and asked whether there were any steps that could be taken in the interim period until the new senior management structure was in place. Paul Dossett advised	

	that it was valid to wait until new arrangements were in place before making any changes; Grant Thornton's general view was that dedicated Audit Committees were the best way of ensuring that there was adequate focus on audit issues. It was noted that the new governance arrangements for pensions, planned to start from 1 April 2014, would mean that Corporate Committee agendas may no longer include pensions items, and this would enable more time for consideration of audit matters. It was advised that an interim report on the options for the new pensions arrangements would be brought to the next Corporate Committee meeting for consideration, with final recommendations to be made in the new year. The Committee commented that the agenda for this meeting had been heavy for a single meeting. With regards to the report's findings around financial control, the Committee welcomed the good progress that had been made and thanked officers for the notable improvements. The Committee discussed the need to balance having a prudent level of reserves and that at times concerns are expressed about councils' levels of reserves being too high. Paul Dossett advised that it was sensible in the current financial climate to ensure that reserves were adequate to cover unforeseen expenditure and to meet challenges as they arose. **RESOLVED** That the content of the report be noted.	ADF
CNCL272.	**INTERNAL AUDIT - QUARTERLY UPDATE** The Committee received the Internal Audit update report for 2013/14 Quarter 1. With regard to the limited assurance report provided in respect of the Alexandra Palace Regeneration Programme, it was reported that all recommendations of the audit report had been accepted by the Alexandra Palace and Park Board and that progress was being made in the implementation of these recommendations. A follow up audit would undertaken, and the outcome reported back to the Corporate Committee. The Committee asked about the performance against targets as set out in Table 1 of the report, and it was reported that the Quarter 2 report to the Board would demonstrate that progress was being made against the targets, and that it was expected that all targets would be achieved by Year End. It was noted that while recovery of benefit overpayments was not always possible, prosecution was very important in terms of acting as a deterrent. The Committee expressed concern regarding the length of time of some of the cases of suspension as set out in appendix C. Jacquie McGeachie, Interim Head of Human Resources and Organisational Development, advised that the four cases with very long periods of suspension had all now been resolved, and that from now on, a case review would be triggered as soon as a suspension period reached 30	

	days, in order to identify how to progress the case more quickly. The Committee asked about the increase in Interim Head positions and other consultants, and asked for an explanation of how the Council was acting to reduce its reliance on these types of post. The Chief Executive advised that some of these posts were as the result of recent restructures, but that he had been concerned with the overall level of consultants reported, and had asked the Interim Head of Human Resources and Organisational Development to look into certain areas where numbers appeared particularly high. As a result, the number of consultant positions within CYPS had reduced by 6, and an action plan was in place to address the remainder of these posts. It was noted that a further 12 consultant positions were due to come to an end by the end of October. In response to a request from Cllr Allison for a more detailed report into the audit for St Michael's Primary School, it was agreed that the Chief Financial Officer would look into whether it was possible to release this information and would respond to Cllr Allison outside the meeting. With regard to schools' audits in general, it was reported that progress on Priority 1 recommendations would be expected as quickly as possible, and certainly by the time of the follow up audit arranged with the management of the school. It had previously been agreed that the Chair of Governors and Headteachers of schools where there did not appear to be adequate progress with audit recommendations would be summoned to answer questions from the Corporate Committee. **RESOLVED** i) That the Committee note the audit coverage and counter-fraud work completed during the first quarter 2013/14. ii) That the Committee confirm that managers' actions taken during the quarter to address the outstanding recommendations are appropriate. iii) That the Committee note the information received from the HR business unit.	DCR
CNCL273.	**CORPORATE RISK REGISTER** The Committee received the report on the current corporate risk register and Corporate Risk Management Policy and Strategy. It was noted that there had been a significant review of corporate risks this year, and it was now focussing on the most critical issues for the Council. It was noted that action plans were in place for all the risks listed to ensure that risk was properly managed. The Committee was further asked to review and approve the Corporate Risk Management Policy and Strategy, which had been slightly updated to reflect changes to job titles and update the references to the Corporate Plan since last year. In response to a question from the Committee, the Chief Executive	

	advised that he was satisfied that risk was being managed adequately in the Council, but that there was further work to do at team level. It was important for risk to be appropriately owned and managed at every level within the Council, rather than having too much being monitored at corporate level. The new Corporate Risk Register was welcomed as an excellent combination of generic and borough-specific risks by Paul Dossett of Grant Thornton. **RESOLVED** i) That the Committee note the current version of the Corporate risk register. ii) That the Committee approve the current corporate Risk Management Policy and Strategy.	
CNCL274.	**PROPOSAL TO REVIEW AND RESTRUCTURE THE SENIOR MANAGEMENT TEAM ARRANGEMENTS** The Committee received the report of the Chief Executive on proposals to review and restructure the Senior Management Team arrangements. It was noted that this did not represent a complete solution, but was intended as part of a wider process of cultural change in order to ensure that the Council was able to adapt more effectively to change in future. It was felt that the current structure emphasised directorates too heavily, at the expense of the corporate Council. The intention was that it would be easy for residents to understand the roles of the new functional units, which would replace directorates. The proposals were also intended to deliver a smaller and more focussed leadership team. The Committee was asked to approve the start of a formal consultation period on the proposals, and the Chief Executive advised that he would be happy to attend Group meetings, or meet with Councillors on an individual basis to discuss the proposals. Consultation would also include key stakeholders including schools, the health service, police and Job Centre Plus. A further report would then be brought back to the Committee. It was noted that further work was currently required around how policy and strategic development work would be managed, and a review on this function would be undertaken and reported back to the Committee in due course. The Committee welcomed the aims of the report to increase efficiency and reduce costs, but expressed concern regarding the changes affecting the statutory posts of Section 151 Officer and Monitoring Officer, as both positions had specific roles and responsibilities as set out in statute. The Chief Execute advised that both of these functions would be retained within the proposed new structure, with the Chief Operating Officer post incorporating the Section 151 responsibilities, and the Assistant Director of Governance taking the role of Monitoring Officer; it was emphasised that each of these post-holders would be appropriately qualified for these respective statutory functions.	

	Concern was expressed regarding the potential short-term costs associated with redundancies, and whether affected staff would be receiving payments over and above their contractual entitlements. It was reported that it was important not to fetter the Council's ability to negotiate, but that there was no intention for payments additional to contractual entitlements to be made. It was noted that decisions on individual circumstances would need to be approved by cross-party Committees set up under Section K Part 4 of the Council's Constitution.	CE
	It was noted that the fourth paragraph of section 3.4 of the report should be amended to read "To exemplify this the Cabinet will set, in consultation with the Senior Leadership team, the strategic direction and broad financial envelope for the budget…"	
	In response to a question around the way in which cultural change would be achieved, it was reported that there was a need to emphasise corporate values by focussing on leadership and management development and encouraging and reinforcing cultural behaviours, and corporate campaigns running across the year were emphasising these. It was also important to try and change the culture so that there was a greater focus on priorities. It was also reported that management meetings had been refreshed in order to support cultural change; the corporate leadership team was now meeting on a monthly basis, with the group of 100 most senior managers meeting every other month. A new corporate messaging system was also now in place.	
	The Committee asked how the new arrangements would work alongside the Cabinet system, and it was reported that, even under the current structure, Directors reported to a number of different Cabinet Members. The important issue was felt to be that there was clear accountability for each Council function. The Committee welcomed the clearer job titles that were proposed, but asked for clarification of the position of Head of Office. It was reported that the Head of Office would combine support for the Leader and Cabinet and the executive administrative support, and it was agreed that the Chief Executive would provide the Committee with a copy of the job description for this role.	
	The Committee asked about the impact the proposals would have on the ALMO. It was reported that renewing the management agreement was a critical task which would need to be undertaken in the next two years, and it was felt that having a single post-holder for both the client side and ALMO was the most effective way of overseeing this process. The Chief Executive advised that there had been an initial discussion with Homes for Haringey Board Members, and that there would be a formal discussion of the proposals by the Board on 30th September. In terms of legal issues around having a single post-holder for the Council and the ALMO, Raymond Prince, Assistant Head of Legal, advised that his inquiries, to include discussions with another borough where such an arrangement was already in place, revealed that there was no legal barrier to this proposal. It was reported that appointment to the joint post would be undertaken by a joint committee of the Council and HfH Board,	

	the details of which needed to be discussed further. With regard to cost savings, it was reported that these proposals would not lead to significant savings in and of themselves, but that there was a commitment to saving money, and this stage would then lead to a more thorough review at the next management level down. With regards to effects on the Pension Fund, it was recognised that this was an issue, and officers were currently looking at ways of addressing this. With regard to pay and reward, the Committee felt that it was important for salaries for new appointments to reflect current market rates, rather than what previous post-holders were paid. **RESOLVED** That the Committee agree: • For the Head of Paid Service to implement consultation, in line with the Council's Restructure Policy, with Councillors, staff. Trade Unions and partners on the proposals. • For the Head of Paid Service to implement the proposals including any changes that were accepted as a result of consultation. • Notwithstanding the above point to provide a progress report back to the Committee in November. • That following consultation and compliance with the Council's Restructure Policy the Head of Paid Service will arrange for redundancy letters to be issued to those employees who have not secured a role in the new structure or been redeployed as a result of the process. • Open engagement with Homes for Haringey on the proposals set out in the paper. • The approach to development of Heads of Service as set out in the report. • To accept the findings of the Pay and Reward review and agree its recommendations for future consultation as se tout in the exempt appendix to the report. • A review of the senior managers' employment contract and for a report to come back to the Committee in November 2013.	
CNCL275.	**DELEGATED DECISIONS, SIGNIFICANT ACTIONS, URGENT ACTIONS** The Committee received the report on Non Executive delegated decisions and significant actions taken by Directors and any urgent actions taken by Directors in consultation with the Chair of the Corporate Committee. **RESOLVED** That the content of the report be noted.	
CNCL276.	**ANY OTHER BUSINESS OF AN URGENT NATURE**	

	There were no urgent items of business.	
CNCL277.	**EXCLUSION OF PRESS AND PUBLIC** **RESOLVED** That the press and public be excluded from the meeting for the following items, as they contained information defined as exempt in Section 100a of the Local Government Act 1972, paragraphs 1, 2 and 3, information relating to any individual, information which is likely to reveal the identity of an individual and information relating to the financial or business affairs of any particular person (including the authority holding that information).	
CNCL278.	**EXEMPT MINUTES** **RESOLVED** That the exempt minutes of the meeting held on 27 June 2013 be approved and signed by the Chair.	
CNCL279.	**PENSION FUND INVESTMENT ADVISER TENDER RESULTS** The Committee considered the exempt information pertaining to agenda item 8.	
CNCL280.	**PROPOSAL TO REVIEW AND RESTRUCTURE THE SENIOR MANAGEMENT ARRANGEMENTS** The Committee considered the exempt information pertaining to agenda item 17..	
CNCL281.	**ANY OTHER EXEMPT ITEMS OF URGENT BUSINESS** There were no new items of exempt urgent business. The meeting closed at 9.50pm.	

COUNCILLOR GEORGE MEEHAN
CHAIR

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Haringey Council

Report for:	Corporate Committee 26th November 2013	Item number	

Title:	Pension Fund: Actuarial Valuation 31st March 2013

Report authorised by :	J Parker 15/11/13 Director of Corporate Resources

Lead Officer:	George Bruce, Head of Finance – Treasury & Pensions George.bruce@haringey.gov.uk 020 8489 3726

Ward(s) affected: N/A	Report for Non Key Decision

1. **Describe the issue under consideration**

1.1 To consider the draft actuarial valuation report as at 31st March 2013, including the methodology and assumption used by the actuary.

2. **Cabinet Member Introduction**

2.1 Not applicable.

3. **Recommendations**

3.1 To agree the assumptions and methodology used by the Actuary to determine the actuarial funding level and standardised employer contribution rate.

4. **Other options considered**

4.1 None.

Haringey Council

5. Background information

5.1 The Pension Fund Actuary is responsible for determining the funding level of the overall scheme and of each employer. The funding level and therefore the contribution rates payable are highly dependent on the assumptions concerning future economic conditions. Although the actuary is responsible for setting the assumptions, there is a process of consultation that enables the Council and other employers to challenge the draft valuation report.

6. Comments of the Chief Financial Officer and financial implications

6.1 The result of the actuarial valuation is a snapshot of the funding position of the Pension Fund. The funding level has remained at 70% with favourable investment returns offset by a reduction of the discount rate linked to UK Government Gilt yields.

6.2 The recommended assumptions are prudent, but do reflect the fact that the Committee is expected to agree an investment strategy targeting a return above that achievable from bonds.

7. Head of Legal Services and Legal Implications

7.1 The Council as administering authority is required under Regulation 36 of the Administration Regulations 2008 to obtain (a) an actuarial valuation of the assets and liabilities of the pension fund, (b) a report by the actuary in respect of the valuation and (c) a rates and adjustment certificate prepared by an actuary. This must be done every 3 years from the 31 March 2010.

7.2 The valuation report mentioned in (b) must contain a statement of the demographic assumptions used in making that valuation and these assumptions must relate to actual events that have occurred in relation to members of the LGPS since the last valuation.

7.3 The rates and adjustment certificate must specify a common employer contribution rate and any individual adjustments for each year of the 3 years period beginning on 1 April.

7.4 Members should note that only the valuation report is contained within this report.

8. Equalities and Community Cohesion Comments

8.1 Not applicable.

Haringey Council

9. Head of Procurement Comments

9.1 Not applicable.

10. Policy Implications

10.1 None.

11. Use of Appendices

11.1 Appendix 1: Hyman's Robertson's 2013 Actuarial Valuation Initial Results

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Actuarial Valuation

Introduction

13.1 The Council has appointed Douglas Green of Hymans Robertson as Scheme Actuary. Hymans are required to carry out an actuarial valuation of the fund every three years to determine the funding level (comparison of assets with the value of promised future benefits) and the future contribution levels payable by the Council and other employers. The ongoing valuation is calculated as at 31st March 2013. Scheme benefits and the contributions payable by employees are determined by the Government.

13.2 The Actuary will be attending the meeting to present the initial valuation results. Prior to the meeting, training will be provided on the basis and assumptions used in the valuation. The report is for the fund as a whole and does not discuss individual employer rates. The actuarial assumptions, which the Committee is invited to approve, are explained in appendix D to the Actuary's report.

Whole Fund Initial Results

13.3 A summary of the results are shown on page 1. The highlights are:

- The funding level has improved marginally from 69.2% to 70.0%.
- In monetary terms the deficit is £73 million greater at £369 million.
- The standard contribution rate has increased by 7% to 35.5%.

Haringey Council

13.4 Pages 11 and 13 explain the change in the deficit and also the future service rate. The main reason for the increased deficit is the lower discount rate applied to pension liabilities, reflecting the current yield on government bonds. Investment returns have exceeded the rate assumed by the Actuary.

13.5 The cost of future pension provision (page 13) has risen by 3.1% to 20.4% of salaries. Although the planned changes to the benefit structure in 2014 will reduce the cost by 2.1%, changes in the assumed investment rate (discount rate) add 4.7% to costs.

13.6 It is noticeable from page 4, that the outcomes for the valuation assumptions that are controllable by the Council (investment returns, retirements & salary increases) have positively impacted the results, where as the assumptions that are outside the Council's control (gilt yields, longevity and inflation during the valuation period) have had a negative impact on the results.

Future Contribution Rates

13.7 The Actuary determines contribution rates separately and specifically for each employer, including the Council. Currently the Council pays 22.9% and other employers, of which there are 41, pay rates of between 17% and 34% and in some cases also pay annual lump sums to cover past service deficits.

13.8 The Actuary has already consulted on the contribution rates payable by the Council from April 2014 to March 2017 and the framework thereafter. Estimated contribution rates for other employers have been circulated and a meeting will be set up enabling these employers to discuss the valuation with the Actuary.

13.9 Following consultation with other employers, the Actuary may be asked to undertake additional modelling to test the impact of changing the contribution rates that they pay during the next valuation cycle.

Next Steps

13.10 The subsequent steps in the valuation process are summarised below.

December

Receive feedback from individual employers on their estimated funding level and contribution rates.

Haringey Council

Carry out any additional contribution rate modelling.

Prepare draft Funding Strategy Statement ("FSS").

<u>January 2014</u>

Present draft FSS to Corporate Committee

Consult on draft FSS with other employers.

<u>March 2014</u>

Present final Actuarial report including schedule of contributions from April 2014 to March 2017 together with the FSS to the Corporate Committee.

London Borough of Haringey Pension Fund
2013 Actuarial Valuation
Initial Results

HYMANS ROBERTSON
The Spirit of Independence

November 2013

Contents

Executive summary

Bryan T Chalmers
Actuary

Douglas Green
Actuary

On behalf of your team at Hymans Robertson, we are delighted to present the initial results of the triennial valuation of the London Borough of Haringey Pension Fund as at 31 March 2013.

Purpose

The purpose of this document is to communicate the initial results at whole fund level and explain our approach to the valuation. Our analysis includes a range of alternative bases which will allow you to assess the risks and then together arrive at the very best strategy for the Fund.

High level results

The tables below summarise the financial position of the Fund and the marked-related (common) contribution rates as at 31 March 2010 and 31 March 2013.

Past Service Position	31 March 2010 (£m)	31 March 2013 (£m)
Past Service Liabilities	960	1,232
Market Value of Assets	664	863
Surplus / (Deficit)	(296)	(369)
Funding Level	**69.2%**	**70.0%**

Contribution Rates	31 March 2010 (% of pay)	31 March 2013 (% of pay)
Employer future service rate (incl. expenses)	17.3%	20.4%
Past Service Adjustment (20 year spread)	11.2%	15.1%
Total employer contribution rate (incl. expenses)	28.5%	35.5%
Employee contribution rate	6.8%	6.6%
Expenses	0.5%	0.5%

High level assumptions

The above results are based on our proposed set of assumptions for this valuation which are summarised below along with the 31 March 2010 assumptions.

Financial assumptions	31 March 2010	31 March 2013
Discount Rate	6.1%	4.6%
Salary Increases	5.3%*	4.3%**
Price Inflation / Pension Increases	3.3%	2.5%

*Salary increases were 1% p.a. until 31 March 2012 followed by the long term rate shown thereafter
** The reduction in real salary growth at 31 March 2013 reflects salary freezes and an expectation of constrained growth for the next valuation cycle.

Scope, reliances and limitations

Scope

This document has been requested by and is provided to Haringey Council in its capacity as Administering Authority to the London Borough of Haringey Pension Fund. It has been prepared by Hymans Robertson LLP to support a discussion on funding strategy with the Fund as part of the 2013 funding valuation.

This document should not be released or otherwise disclosed to any third party (including Fund employers) without our prior written consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

The valuation results are inextricably linked to the data provided to us and the assumptions that we use in our calculations. It is possible that as part of our ongoing discussions you may find that there is additional information you should provide us with. In a similar way, you may feel that one or more of our proposed assumptions are not suitable for the Fund and you may wish to explore the use of alternatives. Until both of these areas are definitively agreed by all relevant parties, the results in this document will remain “initial” and could be subject to change before the final valuation report is signed off. This document is a “component report” of the eventual final aggregate valuation report.

The results contained in this document are for the Fund as a whole. It does not set out the valuation results for individual employers, which will be derived at a later date. Employers come in different shapes and sizes and their valuation results are not uniform. We would advise against extrapolating the results contained in this document to predict possible contribution rates for employers at this stage.

Reliances and limitations

This document has been prepared for the purpose of reviewing the funding strategy and employer contributions to the Fund and nothing contained within it affects any member’s benefits. Furthermore, none of the figures should be used for accounting purposes (e.g. under FRS17 or IAS19) or for any other purpose (e.g. a termination valuation under Regulation 38(1)).

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. We have previously issued a separate report confirming that the data provided is fit for the purposes of this valuation and have commented on the quality of the data provided. The data used in our calculations is as per our report of November 2013.

The figures in this report are based on our understanding of the benefit structure of the LGPS as at 31 March 2013 and the changes taking effect from 1 April 2014. Details of this will be provided in our final valuation report.

Actuarial Standards

The following Technical Actuarial Standards[1] are applicable in relation to this report and have been complied with where material:

- TAS R – Reporting;
- TAS D – Data;
- TAS M – Modelling; and
- Pensions TAS.

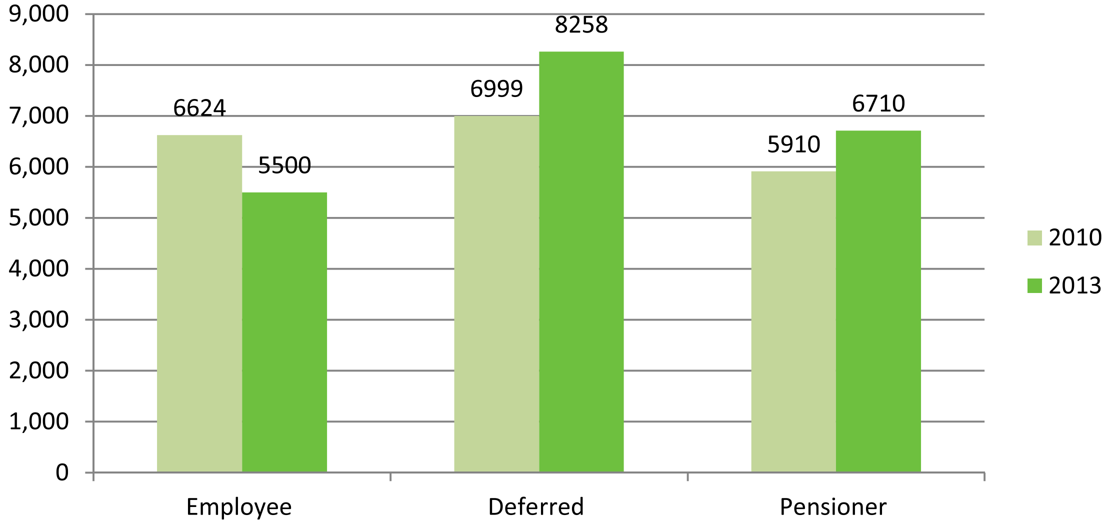
[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this report.

Events since 2010

Since the previous formal valuation of the Fund at 31 March 2010 various events have taken place, which have had an effect on the estimated cost of the Fund.

Changes in the Fund's membership

The membership profile of the Fund has changed since the previous valuation. New employee members have joined the Fund whilst others have left the Fund, retired or died. Whilst membership changes were anticipated at the previous valuation, the actual changes have inevitably not exactly matched our expectations. The chart below summarises both the number of members in each membership category at 31 March 2010 and 31 March 2013.



Maturity

The membership data that we have been provided with suggests that the Fund is gradually maturing. In other words, the proportion of the total membership attributable to employee members is gradually receding, meaning that the burden (as a percentage of current contributing members payroll) on contributing members of meeting the cost of the Fund's liabilities is becoming progressively greater. If this trend were to continue, the result would be that in future the overall contribution rate would become much more heavily influenced by the past service funding level, rather than simply the cost of new benefits being earned in future by contributing members.

Another measure of the maturity of the Fund is to look at the average age of its membership and the expected remaining future working lifetime (FWL). This is set out in the table below:

	Average Age (years)		FWL (years)	
Membership Profile	**2010**	**2013**	**2010**	**2013**
Employees	51.4	51.3	8.3	9.8
Deferred Pensioners	50.8	51.3	-	-
Pensioners	66.0	66.3	-	-

Note that the ages presented here are weighted by liability.

The expected future working lifetime indicates the anticipated length of time that the average employee member will remain as a contributor to the Fund. Note that it allows for the possibility of members leaving, retiring early or dying before retirement.

Other financial and demographic changes

The table below summarises the actual and expected values for the various assumptions. Further details are given below.

Assumption/measure	Actual	Expected	Difference	Impact
Asset return				
Over 3 year period	27.0%	19.4%	7.6%	Positive
Annual	8.3%	6.1%	2.2%	
Pre-retirement experience				
Early leavers	1956	1662	18%	Positive
Ill health retirements	24	126	-81%	Positive
Salary increases (p.a.)	1.8%	3.1%	-1.3%	Positive
Post-retirement experience				
Pension increases	3.5%	3.3%	0.2%	Negative
Amount of pension ceasing over 3 year period (£m)	1.79	2.07	-14%	Negative

Assumption/measure	2010	2013	Difference	Impact
Fixed interest gilts	4.5%	3.0%	-1.5%	Negative
Index linked gilts	0.7%	-0.3%	-1.0%	Negative
Inflation (RPI)	3.8%	3.3%	-0.5%	Positive

Assets

The performance of the Fund's investments has been more than the expected return over the three year period to 31 March 2013. This has had a positive effect on the past service position of the Fund at this valuation.

The Fund's investment strategy has remained largely unchanged since 2010, with around 84% of the Fund invested in riskier assets (such as equities, property and alternatives). The experience of the last three years serves to underline the fact that, whilst these riskier assets are expected to outperform more risk averse investments (such as government bonds and cash) over the long-term, they are susceptible to volatility in the short-term.

Liabilities

The decrease in the real yield since 2010 has itself served to increase the value of the Fund's liabilities.

The discount rate used to value the Fund's future benefit payments is based on the return on fixed interest gilts, whilst the benefits themselves are projected to increase in line with both salary and price inflation. Therefore, the "real" return available on gilts (i.e. the return on fixed interest gilts net of inflation) is a key indicator in the measurement of liabilities.

All other things being equal, a decrease in real gilt yield serves to increase the value placed on the Fund's liabilities and vice versa.

Future service

The difference in the real gilt yield between 2010 and 2013 has itself led to an increase in the future service rate.

There is a similar relationship between real gilt yields and the future service contribution rate. All other things being equal, the fall in real gilt yields since 2010 will serve to push up the expected cost of new benefits earned by employee members in future.

Note that volatility in the market value of the Fund's equity-type investments has no immediate effect on the future service contribution rate, as opposed to the immediate and often tangible effect it can have on the past service position (i.e. the effect on the deficit at any given time). The effect on the future service rate may manifest itself at a later date, when the assumptions used to calculate it are updated to take account of this experience.

Pre-retirement experience

Early leavers

There were more early leavers than anticipated. This serves to decrease the Fund's liabilities, as broadly speaking deferred benefits are assumed to grow at a slower rate (price inflation) than those for active members (salary inflation).

Ill health retirements

There were fewer ill health retirements than expected. This serves to decrease the Fund's liabilities, as ill health benefits are costly. Those who retire early through ill health not only receive their benefits before their normal retirement age but are also credited with additional service, both of which place a strain on the Fund.

Non-ill health early retirements

We do not make any assumption about non ill-heath early retirements. Whilst the level of ill health in the population is linked to certain underlying factors that can be analysed, events such as redundancy are often made for commercial reasons and are far more difficult to predict. Where such early retirements have been granted, this will serve to increase the Fund's liabilities (except where pensions have been specifically reduced to reflect their early payment). Such an increase is usually offset by a lump sum payment from the retiree's employer (a "strain" payment). However, as time elapses it is unlikely that this payment will exactly match the liability it was originally intended to cover (for example, the member may go on to live much longer than expected).

Salary increases

Salaries have increased at a slower rate than expected over the last three years. This serves to decrease the Fund's liabilities, as members' retirement benefits are ultimately linked to final salary.

Post-retirement experience

Once retired, members (and possibly their dependants) will receive pension benefits for as long as they survive. The key factors that influence the cost of these benefits to the Fund are therefore pensioner mortality and increases to pensions in payment.

Pension increases

Pensions have increased more than expected over the last three years. This has had a slightly adverse impact on the funding position.

Pensioner longevity

The amount of pensions ceasing over the last three years was less than was anticipated. Whilst this is obviously good news for the Fund's pensioners, it inevitably places a bigger financial burden on the Fund. Note that when we analyse pensioner deaths and derive our assumptions for the future, we do not simply base our analysis on the number of pensioners dying. Rather, we look at the amount of pension that subsequently ceases to be paid out by the Fund. This is a more relevant figure, as the cost to the Fund will be more heavily influenced by those who are in receipt of larger pensions.

Having assessed the events that have affected the Fund since the previous valuation, we can now formulate an approach to this 2013 valuation which will incorporate this information into our long-term assumptions for the Fund.

New Scheme from April 2014

From 1 April 2014, the way in which benefits accrue in the LGPS will fundamentally change. The main change is that benefits will no longer be based on members' final salary at retirement, but will be based on members' Career Average Revalued Earnings (CARE). Details of the changes coming in on 1 April 2014 (the 2014 scheme) are set out in Appendix B.

Our calculation of the future service rate at the 2013 valuation is based on the 2014 scheme benefits, which comes into effect from 1 April 2014. This is consistent with the application of the contribution rates determined at the 2013 valuation, which also come into effect from 1 April 2014.

Having assessed the events that have affected the Fund since the previous valuation, we can now formulate an approach to this 2013 valuation which will incorporate this information into our long-term assumptions for the Fund.

2013 – Our proposed approach and assumptions

For our valuation approach, please see Appendix B and our briefing note titled ‘2013 Valuation approach’ dated March 2013.

Similarly, please see our briefing note titled ‘2013 Valuation assumptions’ which sets out our central recommended assumptions for the 2013 valuation. This can be found in Appendix D.

Details of our recommended assumptions for the Fund for this valuation are set out below, following discussions of our central recommendations.

Financial assumptions

The table below summarises the financial assumptions that we believe are most appropriate for the valuation of members’ benefits at this valuation. The corresponding assumptions from the 2010 valuation are shown for reference.

	31 March 2010		31 March 2013	
Financial assumptions	**Nominal**	**Real**	**Nominal**	**Real**
Discount Rate	6.1%	2.8%	4.6%	2.1%
Salary Increases*	5.3%**	2.0%	4.3%***	1.8%
Price Inflation / Pension Increases	3.3%	-	2.5%	-

**Excluding promotional increases.*

***1% p.a. for 2010/11 and 2011/12, reverting to the long term assumption shown thereafter.*

*** The reduction in real salary growth at 31 March 2013 reflects salary freezes and an expectation of constrained growth for the next valuation cycle.

A further explanation of how we have derived these assumptions is set out below.

Discount rate

As set out in our briefing note (Appendix D), we recommend that Funds adopt the same Asset Outperformance Assumptions (AOA) as was adopted at the 2010 valuation, unless significant changes in the Fund’s investment strategy have taken place.

The table below details the composition of the discount rate at 31 March 2013:

	31 March 2013	
Discount rate	**Nominal**	**Real**
"Gilt-based" discount rate	3.0%	0.5%
Asset Outperformance Assumption	1.6%	-
Funding basis discount rate	4.6%	2.1%

Price inflation / pension increases

Due to changes in the construction of the CPI index since 2010, we expect the average long term difference between RPI and CPI to be 0.8% p.a. Please see Appendix D for further details.

The table below confirms our assumption for CPI/pension increases at this valuation:

Assumed pension increases	31 March 2013
Market-derived RPI	3.3%
RPI to CPI adjustment	0.8%
CPI / pension increases	2.5%

Salary increases

Please see Appendix D for further details. The general salary growth assumption for the Fund as at 31 March 2013 is set equal to the long term rate of RPI plus 1% p.a. At 2010, the salary growth was 1% p.a. for 2 years and RPI plus 1.50% p.a. thereafter.

The reduction in the assumption in excess of inflation taken at 31 March 2013 for the long term salary increase assumption reflects salary freezes and an expectation of constrained growth for the next valuation cycle.

The table below summarises our proposed salary increase assumption:

Assumed salary increases	31 March 2013
Market-derived RPI	3.3%
Salary increase in excess of inflation	1.0%
Total salary increase	4.3%

Note that this assumption is made in respect of the general level of salary increases (e.g. as a result of inflation and other macroeconomic factors). We also make a separate allowance for expected pay rises granted in the future as a result of promotion. This assumption takes the form of a set of tables which model the expected promotional pay awards based on each member's age and class. Please see Appendix C.

Longevity

In setting the assumptions for longevity, there are two principal factors that we must consider:

- The life expectancy for members based on what we know today – known as "baseline longevity".
- How this life expectancy is forecast to improve in the future – known as the "longevity improvement".

At the 2010 valuation, for baseline longevity we used the "SAPS" tables which are a standard set of tables published by the actuarial profession based on the longevity experience of occupational pension funds.

We then allowed for future longevity improvements in line with the medium cohort projections with a minimum level of improvement of 1% p.a.

Baseline longevity - VitaCurves

As previously advised, the longevity assumptions that have been adopted at this valuation are a bespoke set of VitaCurves that are specifically tailored to fit the average membership profile of the Fund. These curves are based on the data you have provided us with for the purposes of this valuation.

Longevity improvement

Please see our briefing note which can be found in Appendix D which sets out the 3 key considerations to make when setting the future longevity improvement assumption.

The above assumptions give the following sample average future life expectancies (in years) for members:

	Actives & Deferreds		Current Pensioners	
Assumed life expectancy at age 65	**Male**	**Female**	**Male**	**Female**
2010 valuation - baseline	18.9	21.6	18.9	21.6
2010 valuation - improvements	23.3	26.1	21.9	24.7
2013 valuation - baseline	19.3	22.0	19.0	21.6
2013 valuation - improvements	24.2	26.6	22.0	24.1

Further details of the mortality assumptions adopted for this valuation can be found in **Appendix C**. Note that the figures for actives and deferreds assume that they are aged 45 at the valuation date.

Demographic assumptions

We are in the unique position of having a very large local authority data set from which to derive our other demographic assumptions. This year, as in previous years, we have made full use of this to analyse the trends and patterns that are present in the membership of local authority funds and tailor our assumptions to reflect LGPS experience.

As with the financial and longevity assumptions, these demographic assumptions affect both the past service and future service valuation results. Further details on these assumptions are set out below.

Withdrawals (early leavers)

See Appendix D and table in Appendix C.

Ill-health early retirements

See Appendix D and table in Appendix C.

Retirement age

See Appendix D. In addition to this, we have assumed that any new deferred members since 31 March 2010 will retire at age 65.

In order to ensure that we are treating these accrued benefits correctly in our valuation calculations, we are explicitly calculating the appropriate retirement age for each member (rather than simply using the age provided in the membership data extract). This is the same approach as we took at the 2010 valuation.

50:50 option under the new LGPS structure

See Appendix D.

Other demographic assumptions

See Appendix D and tables in Appendix C.

Further comments on the assumptions

Level of prudence

As required for Local Government Pension Scheme valuations, our proposed approach to this valuation must include a degree of prudence. This has been achieved by explicitly allowing for a margin of prudence in the Asset Outperformance Assumption.

For the avoidance of doubt, we believe that all other proposed assumptions represent the “best estimate” of future experience. This effectively means that there is a 50% chance that future experience will be better or worse than the chosen assumption.

Taken as a whole, we believe that our proposed assumptions are more prudent than the best estimate. The assessed liability value on a “neutral” best estimate (not prudent) basis would perhaps be 20% lower than the figures shown here.

Selecting a set of final assumptions

The assumptions presented here are not the only ones that could be adopted for the valuation. It can be tempting to opt for a combination of assumptions that give the most favourable valuation results. However, whilst this approach may offer some short term benefits (for example, temporarily showing a higher funding level and lower contribution requirement for the Fund and its employers) there is a long term risk that the cost of the Fund is being underestimated. This can increase the risk of even greater deficits arising in the future, possibly at very inopportune times.

Conversely, it may seem attractive to choose a set of assumptions that are extremely cautious and that result in a much higher deficit, on the grounds of prudence. This could prompt a call for much higher contributions from employers in the short term, possibly unnecessarily so, which may be unsustainable and therefore not in the best interests of employers in the long term.

We believe that our proposed set of valuation assumptions, taken as a whole, are the most appropriate for the Fund as at 31 March 2013. We consider that the valuation results they yield give the best balance between prudence and a realistic assessment of the financial position of the Fund.

We have used these proposed assumptions to calculate the initial valuation results at 31 March 2013.

2013 – Initial results

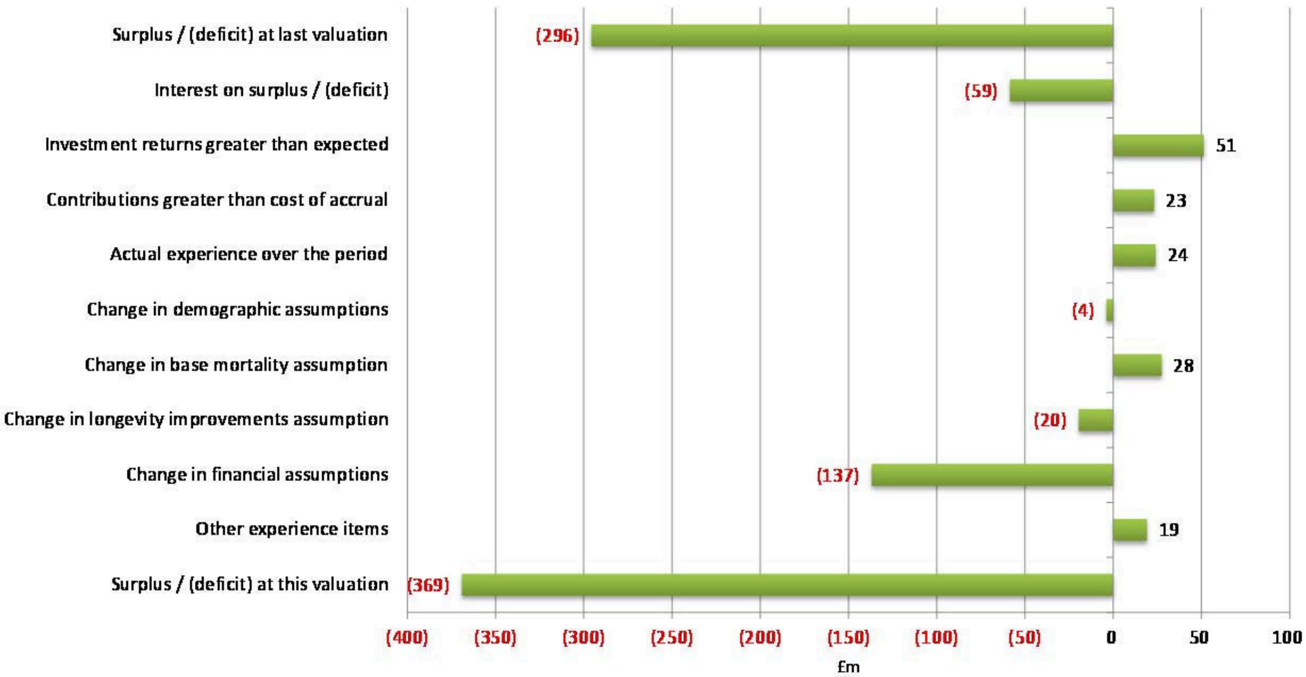
Past service – funding level and deficit

The table below shows the initial results for the past service position of the whole fund at 31 March 2013. These 2013 figures are based on our proposed valuation assumptions, as set out in the previous section. The final results of the previous valuation at 31 March 2010 are also shown for reference.

Valuation Date	31 March 2010	31 March 2013
Past Service Position	***(£m)***	**(£m)**
Past Service Liabilities		
Employees	399	427
Deferred Pensioners	205	293
Pensioners	355	513
Total Liabilities	960	1,232
Market Value of Assets	664	863
Surplus / (Deficit)	**(296)**	**(369)**
Funding Level	**69.2%**	**70.0%**

Why the past service position has changed

The chart below illustrates the various factors that have led to the deficit rising between the previous valuation and this one.



Further comments on the items in this chart:

- There is an interest cost of £59m. This is broadly three years of compound interest at 6.10% p.a. applied to the previous valuation deficit of £296m.
- Investment returns being higher than expected since 2010 lead to a gain of £51m. This is roughly the difference between the actual and expected three-year return applied to the whole fund assets from the previous valuation of £664m, with a further allowance made for cashflows during the period.
- The impact of contributions compared to accrual is a profit of £23m.
- The impact of the change in demographic assumptions has been a loss arising of around £4m.
- The change in mortality assumptions (baseline and improvements) has given rise to a gain of £8m. This is mainly due to the change in assumed baseline longevity
- The change in financial conditions between the previous valuation has led to a loss of £137m. This is due to a decrease in the real discount rate between 2010 and 2013. This has been partially been offset by the 0.3% p.a. increase in our assumption of the gap between RPI and CPI.
- Other experience items, such as changes in the membership data, have served to increase the deficit at this valuation by around £43m.

Illustrative results from alternative assumptions – past service position

These initial valuation results are based on our proposed set of assumptions, which we believe are appropriate to the Fund's circumstances. However, they are by no means the only set of assumptions that could be used.

The table below illustrates the funding level and deficit that would arise from using various combinations of the two most influential assumptions - namely investment return and longevity.

Past service position		Asset Outperformance Assumption		
		1.4%	1.6%	1.8%
Longevity	2013 Valuation (improvements 1)	67% (416)	70% (369)	73% (324)
	2013 Valuation (improvements 2)	65% (468)	67% (419)	70% (373)

The shaded box contains the initial results for this valuation, based on our proposed set of assumptions. Some points to note from this table are:

- "Improvements 1" are the longevity improvements that we are proposing for this valuation.
- "Improvements 2" are a more cautious set of improvements that, in the short term, assume the 'cohort effect' of strong improvements in life expectancy currently being observed amongst a generation born around the early and mid 1930s will continue to strengthen for a few more years before tailing off. This is known as "non-peaked".

Having looked at the past service position, we must also analyse the future service costs and the contribution rates that arise from this valuation.

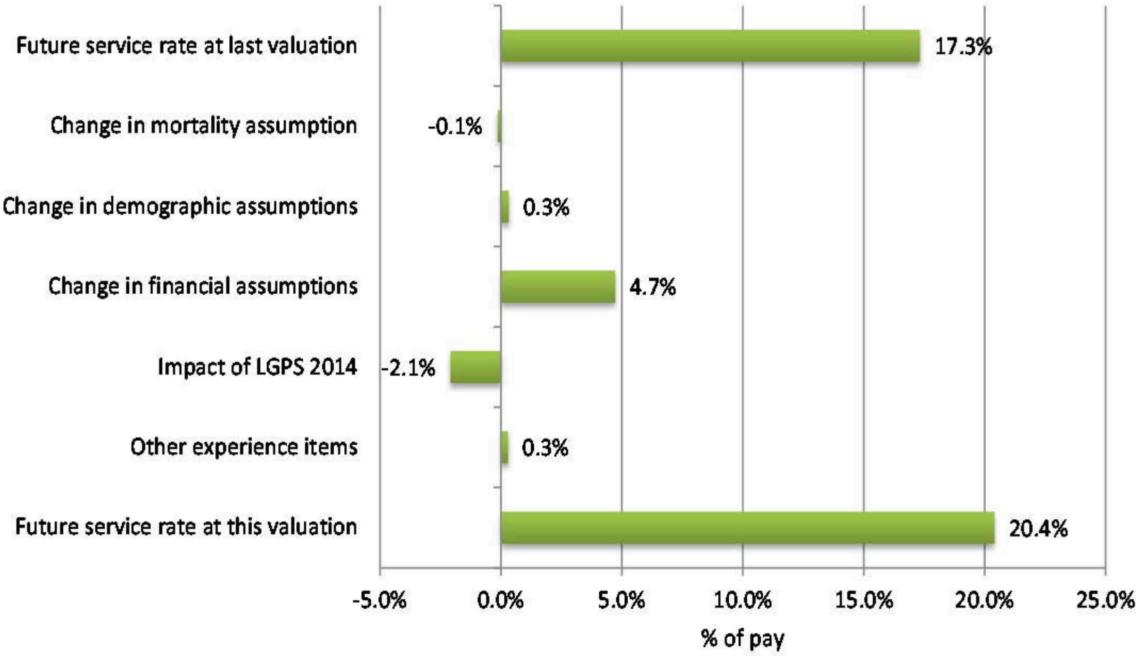
Contribution rates – future service rate

The table below shows the initial results for the future service cost for the whole fund as at 31 March 2013. Again, these 2013 figures are based on our proposed set of assumptions and the corresponding results from the previous valuation in 2010 are shown for reference.

Valuation Date	31 March 2010	31 March 2013
Future service rate	**% of pay**	**% of pay**
Employer future service rate (excl. expenses)	16.9%	19.9%
Expenses	0.5%	0.5%
Total employer future service rate (incl. expenses)	**17.3%**	**20.4%**
Employee contribution rate	6.8%	6.6%

Why the future service rate has changed

The chart below illustrates the various factors that have led to the employer future service rate rising between the previous valuation and this one.



As can be seen from this chart, the factors that have had the biggest impact on the future service rate between 2010 and 2013 are broadly similar to those discussed for the past service position, other than asset returns.

In addition to this, the impact of the LGPS 2014 scheme has resulted in a reduction in the future service cost of 2.1% p.a of payroll compared to the pre 2014 scheme.

Contribution rates – total contribution rate

The table below shows the initial results for the total (common) contribution rate, which consist of the future service rate plus the additional contributions required to repay the deficit (the past service adjustment).

Valuation Date	31 March 2010	31 March 2013
Total contribution rate	**% of pay**	**% of pay**
Future service rate (incl. expenses)	17.3%	20.4%
Past service adjustment (20 year spread)	11.2%	15.1%
Total employer contribution rate	**28.5%**	**35.5%**

For consistency, I have based my calculation of the past service adjustment on the same deficit recovery period as the previous valuation, namely 20 years. Theoretically, this period could be reduced or extended to suit the circumstances of the Fund at 31 March 2013. In practical terms, a reduction to the recovery period of one year would effectively increase the past service adjustment by roughly 0.7% and vice versa.

However, whilst extending the deficit recovery period on the grounds of affordability is an option, we believe this would be inadvisable given the current funding position. There are other ways to meet the need for affordable contributions for employers without jeopardising the health of the Fund in the long term which we will discuss later.

Illustrative results from alternative assumptions – total contribution rate

The table below illustrates the future service rate **(top)**, past service adjustment **(middle)** and total contribution rate **(bottom)** that would arise from using various combinations of the two most influential assumptions - namely investment return and longevity.

Contribution rates		Asset Outperformance Assumption		
		1.4%	1.6%	1.8%
Longevity	2013 Valuation (improvements 1)	21.8% 16.7% **38.5%**	20.4% 15.1% **35.5%**	19.1% 13.5% **32.6%**
	2013 Valuation (improvements 2)	23.3% 18.8% **42.0%**	21.8% 17.2% **39.0%**	20.4% 15.5% **35.9%**

The shaded box contains the initial results for this valuation, based on our proposed set of assumptions. The definitions of “Improvements 1” and “Improvements 2” are as described in the previous section.

2013 – Risk assessment

The valuation results depend critically on the actuarial assumptions that are made about the future of the Fund. If all of the assumptions made at this valuation were exactly borne out in practice then the results presented in this document would represent the true cost of the Fund as it currently stands at 31 March 2013.

However, no one can predict the future with certainty and it is unlikely that future experience will exactly match all of our assumptions. The future therefore presents a variety of risks to the Fund and these should be considered as part of the valuation process. In particular:

- The main risks to the financial health of the Fund should be **identified**.
- Where possible, the financial significance of these risks should be **quantified**.
- Consideration should be given as to how these risks can then be **controlled** or **mitigated**.
- These risks should then be **monitored** to assess whether any mitigation is actually working.

This section investigates the potential implications of the actuarial assumptions not being borne out in practice.

Set out below is a brief assessment of the main risks and their effect on the valuation results, beginning with a look at the effect of changing the main assumptions and then focusing on the two most significant risks – namely investment risk and longevity risk.

Sensitivity of valuation results to changes in assumptions

Broadly speaking, there are two particular risks that are generally of most interest to pension funds – the performance of the Fund's investments and improvements in life expectancy compared to our assumptions. A further analysis of both is given below.

Investment risk

As the assets of the Fund are taken at their market value, volatility in investment performance can have an immediate and tangible effect on the funding level and deficit. This is particularly relevant because the Fund is invested predominantly in riskier assets such as equities and equity-type investments (e.g. property). A rise or fall in the level of equity markets has a direct impact on the financial position of the Fund, which may seem obvious.

Less obvious is the effect of anticipated investment performance on the Fund's liabilities (and future service cost). Here it is the returns available on government bonds that are of crucial importance, as the discount rate that we use to place a value on the Fund's liabilities is based on gilt yields at the valuation date. As described earlier, the discount rate used to value the Fund's future benefit payments is based on the return on fixed interest gilts, whilst the benefits themselves are projected to increase in line with inflation. Therefore, the return available on index-linked gilts is a key factor in the valuation of the Fund's liabilities (and future service cost).

The table below shows how the funding level (top), deficit (middle) and total contribution rate (bottom) would vary if investment conditions at 31 March 2013 were different. The level of the FTSE 100 Price index is taken as a suitable proxy for asset performance whilst the index-linked gilt yield is taken as a yardstick for the valuation of liabilities.

Index Linked Gilt Yield	-0.10%	68% (380) 34.9%	73% (324) 32.6%	77% (268) 30.2%
	-0.30%	65% (425) 37.8%	70% (369) 35.5%	75% (313) 33.2%
	-0.50%	63% (472) 40.7%	67% (416) 38.5%	72% (360) 36.2%
		5912	6412	6912
		FTSE 100 Price Index		

The shaded box contains the initial results for this valuation. Note that this does not take account of the performance of all asset classes held by the Fund (e.g. property, bonds, cash) but it does serve to highlight, in broad terms, the sensitivity of the valuation results to investment conditions at the valuation date.

Note that the scenarios illustrated above are by no means exhaustive. They should not be taken as the limit of how extreme future investment experience could be.

Longevity risk

The valuation results are also very sensitive to unexpected changes in future longevity. All else being equal, if longevity improves in the future at a faster pace than allowed for in the valuation assumptions, the funding level will decline and the required employer contribution rates will increase.

Recent medical advances, changes in lifestyle and a greater awareness of health-related matters have resulted in life expectancy amongst pension fund members improving in recent years at a faster pace than was originally foreseen. It is unknown whether and to what extent such improvements will continue in the future.

For the purposes of this valuation, we have selected assumptions that we believe make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund since the previous valuation.

The table below shows how the valuation results at 31 March 2013 are affected by adopting different longevity assumptions. See page 13 for further details. The bottom row represent the impact of pensioners living one year longer than the life expectancy under improvements 2.

	Impact		
Longevity assumption	**Funding level**	**Deficit (£m)**	**Future service rate**
2013 valuation (improvements 1)	70%	(369)	20.4%
2013 valuation (improvements 2)	67%	(419)	21.8%
1 year extra	65%	(458)	22.6%

This is not an exhaustive list of the assumptions used in the valuation. For example, changes to the assumed level of withdrawals and ill health retirements will also have an effect on the valuation results. However, the table contains those assumptions that typically are of most interest and have the biggest impact.

Note that the table shows the effect of changes to each assumption in isolation. In reality, it is perfectly possible for the experience of the Fund to deviate from many of these assumptions between valuations and so the precise effect on the funding position is therefore more complex.

Other risks to consider

The table below summarises the effect that changes in some of the other valuation assumptions and risk factors would have on the funding position. Note that these are probably unlikely to change in such a way that would rank them as amongst the highest risks facing the Fund and therefore the analysis is qualitative rather than quantitative.

	Impact	
Factor	**Funding level**	**Future service rate**
Greater level of ill health retirement	Decreases	Marginal
Reduced level of withdrawals	Decreases	Marginal
Rise in average age of employee members	Marginal effect	Increases
Lower take up of 50:50 option	No impact	Increases

One further risk to consider is the possibility of future changes to Regulations that could materially affect the benefits that members become entitled to. It is difficult to predict the nature of any such changes but it is not inconceivable that they could affect not just the cost of benefits earned after the change but could also have a retrospective effect on the past service position (as the move from RPI to CPI-based pension increases already has).

Managing the risks

Whilst there are certain things, such as the performance of investment markets or the life expectancy of members, that are not directly within the control of the pension fund, that does not mean that nothing can be done to understand them further and to mitigate their effect. Although these risks are difficult (or impossible) to eliminate, steps can be taken to manage them.

Ways in which some of these risks can be managed could be:

- Set aside a specific reserve to act as a cushion against adverse future experience (possibly by selecting a set of actuarial assumptions that are deliberately more prudent).
- Take steps internally to monitor the decisions taken by members and employers (e.g. relating to early / ill health retirements or salary increases) in a bid to curtail any adverse impact on the Fund.
- Pooling certain employers together at the valuation and then setting a single (pooled) contribution rate that they will all pay. This can help to stabilise contribution rates (at the expense of cross-subsidy between the employers in the pool during the period between valuations).
- Carrying out a review of the future security of the Fund's employers (i.e. assessing the strength of employer covenants).
- Carry out a bespoke analysis of the longevity of Fund members and monitor how this changes over time, so that the longevity assumptions at the valuation provide as close a fit as possible to the particular experience of the Fund. This is effectively what Club Vita does.
- Undertake an asset-liability modelling exercise that investigates the effect on the Fund of thousands of possible investment scenarios that may arise in the future. An assessment can then be made as to whether long term, secure employers in the Fund can stabilise their future contribution rates (thus introducing more certainty into their future budgets) without jeopardising the long-term health of the Fund. This is exactly what our comPASS tool does.
- Purchasing ill health liability insurance to mitigate the risk of an ill health retirement impacting on solvency and funding level of an individual employer.

- Monitoring different employer characteristics in order to build up a picture of the risks posed. Examples include membership movements, cash flow positions and employer events such as cessations.

We would be delighted to set out in more detail the risks that affect the Fund and discuss with you possible strategies for managing them.

Stabilisation of contribution rates (comPASS)

There can be occasions when the market-related employer contribution rate is not affordable or achievable in practice in the short term. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has carried out extensive modelling to explore the long term effect on the Fund of capping future contribution increases (and decreases). By adopting such a strategy, this effectively means that employers will pay slightly less than the market-related contribution rate in “bad” times and in turn will pay slightly more than the market-related rate in “good” times.

The comPASS modelling that we carry out makes an explicit allowance for the possible future investment risks that the Fund may encounter over the period of stabilisation. By doing so, the aim is to justify whether or not the long-term health of the Fund will be adversely impacted by the application of a cap on changes to contribution rates.

The results of the modelling are in a separate paper dated 5th August 2013.

Next steps

Next steps

This report sets out the initial results of the 2013 valuation at whole fund level. We have presented a set of valuation results based on our recommended set of actuarial assumptions and also show how these results would change if a variety of alternative approaches were taken.

The next steps in the process are as follows.

- The next step is for the Administering Authority and the Actuary to ***agree on the final actuarial assumptions*** that will ultimately be adopted for the valuation. This may simply be a ratification of the assumptions that we have proposed. On the other hand, you may feel that some of these assumptions are not appropriate for the Fund and you may want to look at some additional scenarios that you feel more closely reflect the Fund's experience.
- Once the final assumptions have been agreed, we will quantify the ***valuation results for each individual employer*** that participates in the Fund. When we present you with these results, we will set out the theoretical contribution rates that each employer should pay for the next three years from 1 April 2014.
- Of course, the contribution rate that each employer should pay in theory may be different to what they will actually pay in practice. Any deviation will be based on their own circumstances and a range of factors including (amongst other things) their perceived security, whether they are going to be pooled with other employers or any budgetary constraints that they may be bound by. We expect there to be a consultation period where you gather together all of these issues and ***come back to us with a set of final contribution rates for each employer.***
- We understand that you may require additional input from us before agreeing the final contribution rates. Some employers may accept their proposed contribution rates quite readily whilst others may want to explore their options. You may want us to look at the viability of ***different contribution strategies*** that are proposed by individual employers.
- Once a set of final contribution rates have been agreed for all employers, we will provide you with a ***final valuation report*** which will clearly set out the final valuation results and will meet all the relevant regulatory requirements. Included in this report will be the Certificate of Rates and Adjustments, which will certify the minimum contribution rates to be paid by each employer for the three year period beginning on 1 April 2014. This final valuation report must be provided to you no later than 31 March 2014.

I would be happy to discuss any aspect of these initial results at our scheduled meeting.

Bryan T Chalmers

Fellow of the Institute and Faculty of Actuaries

8 November 2013

Douglas Green

Fellow of the Institute and Faculty of Actuaries

8 November 2013

Appendix A: About the pension fund

The purpose of the Fund is to provide retirement benefits to its members. It is part of the Local Government Pension Scheme (LGPS) and is a multi-employer defined benefit pension scheme.

Defined benefit pension scheme

In a defined benefit scheme such as this, the nature of retirement benefits that members are entitled to is known in advance. For example, it is known that members will receive a pension on retirement that is linked to their salary and pensionable service according to a pre-determined formula.

However, the precise cost to the Fund of providing these benefits is **not** known in advance. The estimated cost of these benefits represents a liability to the Fund and assets must be set aside to meet this. The relationship between the value of the liabilities and the value of the assets must be regularly assessed and monitored to ensure that the Fund can fulfil its core objective of providing its members with the retirement benefits that they have been promised.

Liabilities

The Fund's liabilities are the benefits that will be paid in the future to its members (and their dependants).

The precise timing and amount of these benefit payments will depend on future experience, such as when members will retire, how long they will live for in retirement and what economic conditions will be like both before and after retirement. Because these factors are not known in advance, assumptions must be made about future experience. The valuation of these liabilities must be regularly updated to reflect the degree to which actual experience has been in line with these assumptions.

Assets

The Fund's assets arise from the contributions paid by its members and their employers and the investment returns that they generate. The way these assets are invested is of fundamental importance to the Fund. The selection, monitoring and evolution of the Fund's investment strategy are key responsibilities of the Administering Authority.

As the estimated cost of the Fund's liabilities is regularly re-assessed, this effectively means that the amount of assets required to meet them is a moving target. As a result, at any given time the Fund may be technically in surplus or in deficit.

A contribution strategy must be put in place which ensures that each of the Fund's employers pays money into the Fund at a rate which will target the cost of its share of the liabilities in respect of benefits already earned by members and those that will be earned in the future.

The long-term nature of the Fund

The pension fund is a long-term commitment. Even if it were to stop admitting new members today, it would still be paying out benefits to existing members and dependants for many decades to come. It is therefore essential that the various funding and investment decisions that are taken now recognise this and come together to form a coherent long-term strategy.

In order to assist with these decisions, the Regulations require the Administering Authority to obtain a formal valuation of the Fund every three years. Along with the Funding Strategy Statement, this valuation will help determine the funding objectives that will apply from 1 April 2014.

LGPS 2014

On 31 May 2012 the Local Government Association (LGA) and trade unions announced the outcome of their negotiations on the new LGPS proposals (for England and Wales) that are to take effect from 1st April 2014. The main elements of the proposed LGPS 2014 scheme are as follows:

- A Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (the current scheme is a final salary scheme).
- The accrual rate would be 1/49th (the current scheme is 1/60th).
- Reversion to a two year vesting period (it is currently 3 months).
- There will be no normal scheme pension age; instead each member's Normal Pension Age (NPA) will be their State Pension Age (the current scheme has an NPA of 65).
- Average member contributions to the scheme would be around the same as the current scheme with the rate determined on actual pay (the current scheme determines part-time contribution rates on full time equivalent pay). While there would be no change to average member contributions, the lowest paid would pay the same or less and the highest paid would pay higher contributions on a more progressive scale after tax relief.
- Members who have already or are considering opting out of the scheme could instead elect to pay half contributions for half the pension, while still retaining the full value of other benefits. This is known as the 50/50 option (the current scheme has no such flexible option).
- For current scheme members, benefits for service prior to 1st April 2014 are protected, including remaining 'Rule of 85' protection. Protected past service continues to be based on final salary and current NPA. Specific protection - the 'underpin' - is proposed to apply to members who were within 10 years of age 65 in April 2012. Some of these members would see their Normal Pension Age increase due to movements in the State Pension Age. So for these members a calculation will be done on retirement at 65 to ensure they will get a pension at least equal to that which they would have received in the LGPS 2008.
- Where scheme members are outsourced they will be able to stay in the scheme on first and subsequent transfers (currently this is a choice for the new employer).

Appendix B: About the valuation

It is important to realise that the actual cost of the pension fund (i.e. how much money it will ultimately have to pay out to its members in the form of benefits) is currently unknown. This cost will not be known with certainty until the last benefit is paid to the last pensioner. The core purpose of this valuation is to estimate what this cost will be, so that the Fund can then develop a strategy to meet it.

Such a valuation can only ever be an estimate – as the future cannot be predicted with certainty. However, as actuaries, we can use our understanding of the Fund and the factors that affect it to determine an anticipated cost which is as sensible and realistic as possible. A decision can then be made as to how much is set aside now to meet this anticipated cost. The pace of this funding can vary according to the level of prudence that is built into the valuation method and assumptions.

For this valuation, as for the previous valuation, our calculations identify separately the expected cost of members' benefits in respect of scheme membership completed before the valuation date ("past service") and that which is expected to be completed after the valuation date ("future service").

Past service

The principal measurement here is the comparison at the valuation date of the assets (taken at market value) and the value placed on the Fund's liabilities (calculated using a market-based approach). By maintaining a link to the market in both cases, this helps ensure that the assets and liabilities are valued in a consistent manner. Our calculation of the Fund's liabilities also explicitly allows for expected future pay and pension increases.

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date.

The funding target is to eliminate any deficit (or surplus) over a specified period and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund, either via lump sums or by increasing the employer's contribution rate. These additional contributions are known as the past service adjustment.

Future service

In addition to benefits that have already been earned by members prior to the valuation date, employee members will continue to earn new benefits in the future. The cost of these new benefits must be met by both employers and employees. The employers' share of this cost is known as the future service contribution rate.

For these initial valuation results for the Fund as a whole, I have calculated the future service rate as the cost of benefits being earned by members over the year following the valuation, taking account of expected future salary increases until retirement. If new entrants are admitted to the Fund to the extent that the overall membership profile remains broadly unchanged (and if the actuarial assumptions are unchanged) then the future service rate should be reasonably stable.

This funding method we have used is known as the Projected Unit Method. As well as the whole fund, it is appropriate for individual employers that continue to admit new entrants to the Fund.

However, some participating employers may have a policy of not admitting new entrants. In this case, the membership profile will inevitably begin to age. Under these circumstances, the Projected Unit Method is arguably no longer appropriate and will not promote sufficient stability in the future service rate. For these employers, we will adopt a funding method known as the Attained Age Method, which effectively looks at the cost of benefits that members will earn over the entirety of their remaining working lifetime (rather than just the year following the valuation).

When we come to issue the valuation results for individual employers, we will make clear which of these methods has been used to calculate each employer's future service rate.

Combining this future service rate with any past service adjustment required to repay a deficit (or reduce a surplus) gives us the total contribution rate. The total rate for the Fund as a whole is known as the common contribution rate. This is really just a notional figure. In practice, each individual employer will have a contribution rate which reflects their own particular circumstances.

The sensitivity of valuation results

The aim of this valuation is not only to determine these important figures but also to demonstrate their sensitivity to a number of key influences. This will promote an understanding of how the expected cost of the Fund may change in response to uncertain future events (e.g. changes in life expectancy or investment returns).

Appendix C: Demographic assumptions

Death in Service tables:

Age	Incidence per 1000 active members per annum			
	Male officers and Post 98	Male Manuals	Female officers and Post 98	Female Manuals
	Death	Death	Death	Death
20	0.26	0.32	0.14	0.17
25	0.26	0.32	0.14	0.17
30	0.31	0.38	0.20	0.26
35	0.36	0.45	0.34	0.43
40	0.61	0.77	0.54	0.68
45	1.02	1.28	0.88	1.11
50	1.63	2.04	1.29	1.62
55	2.55	3.19	1.70	2.13
60	4.59	5.74	2.18	2.72
65	7.65	9.56	2.79	3.49

Ill Health Early Retirements tables:

Tier 1

Age	Incidence for 1000 active members per annum							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	0.76	0.60	0.19	0.15	0.99	0.79
30	0.00	0.00	1.39	1.11	0.25	0.20	1.44	1.15
35	0.19	0.15	2.08	1.66	0.50	0.40	1.98	1.58
40	0.32	0.25	3.02	2.42	0.76	0.60	2.88	2.30
45	0.69	0.55	4.16	3.33	1.01	0.81	3.78	3.02
50	1.76	1.41	6.17	4.94	1.89	1.51	5.04	4.03
55	6.91	5.53	14.61	11.69	7.01	5.61	13.54	10.83
60	12.16	9.73	23.42	18.74	14.86	11.89	23.81	19.05
65	23.10	18.48	45.15	36.12	26.71	21.37	45.15	36.12

Tier 2

Age	Incidence for 1000 active members per annum							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	0.80	0.64	0.20	0.16	1.05	0.84
30	0.00	0.00	1.47	1.18	0.27	0.21	1.53	1.22
35	0.20	0.16	2.21	1.77	0.54	0.43	2.10	1.68
40	0.33	0.27	3.21	2.57	0.80	0.64	3.06	2.45
45	0.74	0.59	4.42	3.53	1.07	0.86	4.02	3.21
50	2.37	1.90	8.31	6.65	2.54	2.03	6.78	5.43
55	5.34	4.27	11.29	9.03	5.42	4.33	10.47	8.37
60	4.58	3.66	8.82	7.05	5.60	4.48	8.96	7.17
65	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Tier 3

Age	Incidence for 1000 active members per annum							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	0.48	0.38	0.09	0.07	0.55	0.44
30	0.09	0.07	0.77	0.62	0.15	0.12	0.77	0.61
35	0.12	0.10	1.16	0.93	0.30	0.24	1.11	0.88
40	0.21	0.17	1.61	1.29	0.39	0.31	1.53	1.22
45	0.48	0.38	2.32	1.86	0.62	0.50	1.96	1.56
50	0.26	0.21	0.68	0.54	0.24	0.20	0.58	0.46
55	0.37	0.30	0.77	0.61	0.45	0.36	0.76	0.61
60	0.21	0.17	0.42	0.33	0.25	0.20	0.42	0.33
65	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Withdrawal

Less than 2 years' service

Age	Incidence for 1000 active members per annum											
	Male Officers		Male Manuals		Female Officers		Female Manuals		Post 98 Males		Post 98 Females	
	Withdrawals		Withdrawals		Withdrawals		Withdrawals		Withdrawals		Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	304.04	506.74	304.04	506.74	288.39	400.55	288.39	400.55	557.41	1000.00	384.52	640.87
25	200.83	334.72	201.20	335.01	194.07	269.50	194.43	269.79	368.19	736.38	258.74	431.17
30	142.53	237.46	143.05	237.91	162.69	225.89	163.17	226.27	261.24	522.40	216.89	361.38
35	111.38	185.51	112.17	186.19	140.45	194.94	141.07	195.43	204.11	408.11	187.19	311.79
40	89.71	149.31	90.77	150.23	116.92	162.22	117.80	162.92	164.33	328.47	155.80	259.40
45	73.64	122.28	75.03	123.55	96.49	133.73	97.50	134.54	134.71	268.98	128.49	213.73
50	56.96	94.68	57.28	95.02	73.34	101.75	73.60	101.96	104.26	208.28	97.73	162.71
55	49.47	82.09	49.77	82.44	56.73	78.59	56.97	78.78	90.46	180.57	75.53	125.58
60	29.97	49.75	30.13	49.94	26.40	36.55	26.52	36.65	54.81	109.43	35.13	58.39

More than 2 years' service

Age	Incidence for 1000 active members per annum											
	Male Officers Withdrawals		Male Manuals Withdrawals		Female Officers Withdrawals		Female Manuals Withdrawals		Post 98 Males Withdrawals		Post 98 Females Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	119.85	199.76	119.85	199.76	113.69	157.90	113.69	157.90	219.73	439.46	151.58	252.63
25	79.17	131.95	79.31	132.06	76.50	106.24	76.64	106.35	145.14	290.28	101.99	169.97
30	56.18	93.60	56.39	93.78	64.13	89.05	64.32	89.20	102.98	205.93	85.50	142.46
35	43.90	73.12	44.22	73.40	55.37	76.84	55.61	77.04	80.46	160.88	73.79	122.91
40	35.36	58.85	35.79	59.22	46.09	63.95	46.44	64.22	64.78	129.48	61.42	102.26
45	29.03	48.18	29.59	48.71	38.04	52.72	38.44	53.04	53.10	106.03	50.65	84.25
50	22.45	37.31	22.58	37.46	28.91	40.11	29.01	40.19	41.10	82.10	38.52	64.14
55	19.50	32.35	19.62	32.50	22.36	30.98	22.46	31.06	35.66	71.18	29.77	49.50
60	11.82	19.60	11.88	19.69	10.41	14.41	10.46	14.45	21.61	43.14	13.85	23.02

Promotional salary scale

Age	Promotional Salary Scales							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	FT	PT	FT	PT	FT	PT	FT	PT
20	100	100	100	100	100	100	100	100
25	135	116	100	100	118	105	100	100
30	169	134	100	100	137	111	100	100
35	192	146	100	100	151	116	100	100
40	208	153	100	100	163	121	100	100
45	222	154	100	100	166	122	100	100
50	236	154	100	100	166	122	100	100
55	239	154	100	100	166	122	100	100
60	239	154	100	100	166	122	100	100
65	239	154	100	100	166	122	100	100

Longevity assumptions	**31 March 2013**
Longevity - baseline	Vita curves
Longevity - improvements	
CMI Model version used	CMI_2010
Starting rates	CMI calibration based on data from Club Vita using the latest available data as at December 2011.
Long term rate of improvement	Period effects: 1.25% p.a. for men and women. Cohort effects: 0% p.a. for men and for women.
Period of convergence	Period effects: CMI model core values i.e. 10 years for ages 50 and below and 5 years for those aged 95 and above, with linear transition to 20 years for those aged between 60 and 80. Cohort effects: CMI core i.e. 40 years for those born in 1947 or later declining linearly to 5 years for those born in 1912 or earlier.
Proportion of convergence remaining at mid point	50%

We have suggested a longevity improvement assumption based on the latest industry standard and combined information from our longevity experts in Club Vita. The start point for the improvements has been based on observed death rates in the Club Vita data bank over the period.

In the short term we have assumed that the ‘cohort effect’ of strong improvements in life expectancy currently being observed amongst a generation born around the early and mid 1930s will start to tail off, resulting in life expectancy increasing less rapidly than has been seen over the last decade or two. This is known as ‘peaked’.

In the long term (post age 70) we have assumed that increases in life expectancy will stabilise at a rate of increase of 1 year per decade for men and women. This is equivalent to assuming that longer term mortality rates will fall at a rate of 1.25% p.a. for men and women.

However, we have assumed that post age 90 improvements in mortality are hard to achieve, declining between ages 90 and 120 so that no improvements are seen at ages 120 and over. The initial rate of mortality is assumed to decline steadily above age 98.

Appendix D: 2013 valuation assumptions

HYMANS ROBERTSON
The Spirit of Independence

briefing note

2013 valuation assumptions June 2013

Catherine McFadyen
Actuary

Steven Scott
Actuary

2013 valuation assumptions

Introduction

We recently outlined the approach we will take to the 2013 valuation in which we identified the distinction between the measurement of the funding position and the management of contribution rates.

The valuation assumptions determine the measurement of the funding position and application of these should result in a prudent measurement of the past service liabilities.

Our assumptions fall into two categories – financial and demographic.

Financial assumptions typically try to predict the **size** of benefits. For example, how large members' final salaries will be at retirement and how their pensions will increase over time. In addition, the financial assumptions also help us to estimate the cost of these benefits in today's money.

Demographic assumptions typically try to forecast **when** benefits will come into payment and **what form** these will take. For example, when members will retire (e.g. at their normal retirement age or earlier), how long they will survive and whether they will exchange some of their pension for tax free-cash.

Financial assumptions

The discount rate and inflation assumptions are set with reference to the market's expectations of future economic conditions at the valuation date.

It is important that the financial assumptions reflect the period over which past service benefits are expected to be paid. The majority of benefits are paid many years in the future. In the period before the benefits are paid the assets are invested with the aim of achieving a return on these assets. So it is appropriate to allow for this investment return to determine how much money is needed now to make these future benefit payments. This process requires the use of a discount rate. All other things being equal, a lower discount rate results in more money being needed now and vice versa.

Discount rate

The discount rate should reflect the returns that the Fund expects to earn on its investments over the long term. We do this by considering the expected return on the lowest risk investments held (government bonds) and applying a margin to allow for the greater returns that are expected to be generated by the equity-type investments held (equities, property etc). We refer to this additional margin as the Asset Outperformance Assumption (AOA).

Although we have seen a downward shift in the expected returns on risky assets since the 2010 valuation, we believe the expected returns in excess of the returns on government bonds to be broadly unchanged since 2010.

For the 2013 valuation, for consistency in measuring progress against a funding plan, we recommend Funds adopt the same AOA as was adopted at the 2010 valuation, unless significant changes in the Fund's investment strategy have taken place since 2010.

Inflation / pension increases

As per the previous valuation, the 'breakeven' RPI inflation assumption will be derived from the yields available on fixed-interest and index-linked government bonds.

LGPS benefit increases are linked to CPI and, as a market for CPI linked government bonds does not exist, we must set our pension increase assumption relative to expected RPI by making an appropriate deduction to reflect the differences between the construction of the RPI and CPI indices, namely the differences between the **"basket" of goods and services** and the impact of **the "formula effect".**

Due to changes in the construction of the CPI index since 2010 (specifically, how changes in clothing and footwear are measured) we expect the average long term difference between RPI and CPI to be 0.8% p.a. (2010: 0.5% p.a.). This compares to a difference of 0.5% p.a. at March 2013 and the Office for Budget Responsibility's (OBR) estimate of the long run difference of 1.4% p.a.[1]

This change has the effect of reducing the value placed on past service liabilities by circa 4% to 5%.

Salary growth

Although annual pay growth in recent years has generally been lower than the rate of inflation, our assumption for general salary growth is based on what we expect over the long term.

Since 2010, average increases to public sector pay have been restricted to broadly 1% p.a. It is expected that public sector pay will continue to be restricted until at least 31 March 2016 (as per the Chancellor's announcement in the 2013 budget). Rather than explicitly recognise the current public sector pay restrictions (as we did in 2010), our recommended approach in 2013 is to set a lower long term rate of salary growth. This reflects both shorter term pay constraints and the belief that general economic growth and hence pay growth may be at a lower level than historically experienced for a prolonged period of time. This assumption is also more appropriate for many types of employer, including academies and private contractors who are not subject to the short term restrictions. To that end, our recommended general salary growth assumption as at 31 March 2013 is set equal to the long term rate of RPI + 1% p.a. (2010: RPI + 1.5% p.a.).

This change (from 1.5% to 1.0% above RPI) has the effect of reducing past service liabilities for **active members** by circa 5% to 6%.

We also make a separate allowance for expected salary growth as a result of promotion, which is considered separately under 'Demographic assumptions'.

[1] Working paper No. 2 - The long-run difference between RPI and CPI inflation, November 2011

Assumptions as at 31 March 2013

The following table shows our 2013 valuation financial assumptions, based on the methodology described and market conditions as at 31 March 2013.

Assumption	Approach	Rate as at 31 March 2013
Discount rate	**Gilts + AOA**	**4.6% p.a.**
Gilt yield	FTSE published yields	3.0% p.a.
AOA	No change	1.6% p.a.
RPI Inflation	Implied from FTSE published yields	3.3% p.a.
Pension increases	RPI less 0.8% p.a.	2.5% p.a.
General salary growth	RPI + 1.0% p.a.	4.3% p.a.

Demographic assumptions

Longevity

Of all the demographic factors, longevity is the one that presents the greatest uncertainty. Subscribers to Club Vita benefit from a greater understanding of longevity risk, in particular the specific risk relative to their own scheme.

To help illustrate the scale and uncertainty of this risk, our valuation calculations will separate out the value of the liabilities based on current observed life expectancies (what we call ‘baseline’ longevity) and the value of liabilities allowing for a possible level of future improvements to longevity.

Baseline Longevity

The baseline longevity for all LGPS funds advised by Hymans Robertson will be based on Club Vita tables. For funds subscribing to the full Club Vita service, the baseline assumptions will be a series of bespoke VitaCurves applied to each member depending on socioeconomic factors. For all other funds, a fund specific baseline table will be created based on whole fund experience.

Future improvement to longevity

At the 2010 valuations, the rate of future longevity improvements was assumed to be in line with the medium cohort projections with a minimum level of improvement of 1% per annum. Following the release of the CMI[2] projections model (“the CMI model”), the ‘cohort’ projections are now outdated.

Future trends in longevity are highly uncertain, but the custom and practice in recent years has been to assume that lifespans will continue to lengthen, although there has been considerable variation in how fast and how long this improvement is expected to last.

There are 3 key considerations to make when setting the future longevity improvement assumption:

[2] Continuous Mortality Investigation, which is supported and funded by the Actuarial Profession

1 **Short term rate of improvements**
The first step is to consider if the rate of improvements has 'peaked' or will continue to rise before peaking in the future ('non-peaked)'. Assuming that the rate of improvements has 'peaked' still means that life expectancy will continue to improve, but that it will do so at a lower rate than it is currently. A 'non-peaked' assumption is more prudent (i.e. results in higher liabilities) than a 'peaked' assumption.

2 **Long term rate of improvements**
The second step to consider is the long term assumed rate of improvements. Over the last 100 years, life expectancy has increased at the rate of 0.7 years per decade (for men), but over the last 10 years has increased at the rate of 2.4 years per decade.

The key question here is - what is the likely impact of medical science and individual behaviour on future longevity? The higher the long term rate, the more prudent the assumption.

3 **Improvements for the 'oldest old'**
The third step to consider is the likely rate of improvements for the eldest in our society. Will the over 90s continue to experience the same improvements in life expectancy they have enjoyed prior to this? Credible historical evidence on the historic rates of improvement for this age group is hard to come by.

We have previously advocated a long-term approach to funding for longevity improvements in assessing the cash contributions that we recommend are paid by local authorities. We still feel that a "wait and see" approach is most appropriate as:

- The longevity risk faced by funds is mitigated in part by the link between Normal Retirement Age to State Pension Age for future service benefits (which in turn, is expected to increase in the future in line with increases in life expectancy);
- The LGPS 'employer cost cap' is expected to include longevity as a cost control mechanism, thus mitigating the impact of future longevity improvements; and
- Local authority funds have a long term time horizon over which to fund improvements in longevity if they emerge.

Bearing the above in mind, our recommended assumption for the future rate of longevity improvements is as follows;

- The current rate of improvements has reached a peak.
- Long term rate of 1.25% p.a. (or around 1 year per decade).
- Longevity improvements for the over 90s will decline.

The net effect of these changes will be to increase the past service liabilities of a typical LGPS fund by circa 2% to 3%.

We will continue to review the appropriateness of this assumption at future valuations.

As part of the 2013 valuation calculations we will calculate the value of past service liabilities and employer contributions on two possible models for longevity improvements, as well as pure baseline longevity, so that you can 'stress test' the impact of future experience on employer contributions. The first model is as described above. The second model for future improvements, which we will term 'further improvements', assumes that the current rate of improvements has not yet reached a peak.

Retirement demographics

Assumptions such as the rate at which members are assumed to leave local government employment with a deferred pension and the assumed incidence of ill-health early retirements affect the assessed cost of benefits accrued to date ("past service liabilities") and the cost of benefits accrued in future ("future service rate").

The starting point for our 2013 valuation assumptions was to analyse past experience over 2007 to 2010.

Withdrawals (excluding ill health)

When setting our withdrawal assumption at the 2010 valuation we allowed for the member's age and the period of past service to identify the likelihood of withdrawal (those with a lower service are more likely to withdraw).

This should more accurately reflect the rate of withdrawals each year in your fund and therefore place a more accurate value on the past service liabilities and the future service rate.

Our analysis of withdrawal experience confirms our belief that withdrawals are dependent on the period of past service. We also observed fewer withdrawals over 2007 to 2010 than we would expect from our 2010 assumption. We have made small adjustments to the likelihood of withdrawals at each age so our assumption better reflects recent experience.

The rate of withdrawals will no longer have an impact of the future service rate calculated for your scheme, which will be calculated on the CARE benefit basis at the 2013 valuation.

Ill health early retirements

The 2010 valuation was the first to recognise the three tier ill health structure introduced from 1 April 2008. We set our ill health retirement assumption based on the limited information available at that time and we can now evaluate this assumption based on actual ill health retirements over 2008 to 2010.

The evidence from 2008 to 2010 shows that:

- There are fewer ill health retirements occurring than was assumed at the 2010 valuation;
- The ages at which members take ill health early retirement are generally increasing; and
- The split of total ill health retirements between each tier is broadly in line with what was assumed in 2010.

We have made small adjustments to the ill health early retirement assumptions to reflect this experience.

Retirement age (non ill health)

The retirement age for current **active members** is assumed to be:

- Rule of 85 for those born prior to 31 March 1960 and protected under current regulations;
- 65 for all other members if they attain age 65 before 1 April 2022; otherwise
- State Pension Age.

Deferred members are assumed to retire at age 60 if they left active status before 1 April 2008, otherwise, they are assumed to retire at age 62.

All members are assumed to work for a minimum of one year past the valuation date.

50:50 option

From 1 April 2014, members can elect to pay half the standard level of contributions for half the accrued benefit (i.e. an accrual rate of 1/98ths). This option will affect future service only (past service is protected) and the employer's cost will fall as a result of members choosing this option.

As contribution rates are set once at each actuarial valuation, we need to make an assumption about the likely incidence of members taking the 50:50 option. Accurately predicting take-up of the 50:50 option will be challenging without any objective evidence. Forecasting the outcome will be made more difficult still by the uncertain impact of auto-enrolment which has not yet been implemented by most LGPS employers (members will be auto-enrolled and re-enrolled in the full benefits scheme).

In evaluating the cost savings from pension reform, the Government Actuary's Department (GAD) assumed that 10% of scheme members will take up the 50:50 option. In the absence of any other information, we believe this is a reasonable assumption to make. Therefore, our standard assumption at the 2013 valuation will be to assume that 10% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

This assumption will reduce employer future service costs by circa 0.5% to 0.8% of pay.

We will be able to further refine this assumption at future valuations, based on the evidence gained from 1 April 2014.

Other demographic assumptions

Our assumption for pay growth has historically been split into general inflationary pay increases and promotional pay growth. Our analysis shows no reason to change the level of assumed promotional pay growth at the 2013 valuation.

At the 2013 valuation we propose no change to our proportions married assumption set in 2010. Additionally, we have decided to keep our recommended commutation assumption constant for this valuation at 50% of HMRC limits for service to 1 April 2008 and 75% of HMRC limits for service from 1 April 2008.

Impact

The following table shows the expected impact of our recommended 2013 valuation assumptions (relative to our recommended 2010 assumptions) on both the funding level and the future service contribution rate. The figures shown allow for changes to market conditions since 31 March 2010 in addition to changes in our assumption setting approach and are that expected for a typical LGPS fund.

Assumption	31 March 2010	31 March 2013	Impact on past service liabilities	Impact on future service contribution rate % of pay
Discount rate	6.1%	4.6%	⇧28%-35%	⇧8%-10%
Long term pay growth	5.3%	4.3%	⇩4%-6%	⇩2%-3%
Pension increases	3.3%	2.5%	⇩10%-15%	⇩2%-3%
Longevity				
Baseline	Club Vita	Club Vita	Variable	Variable
Future improvements	Medium cohort (1% underpin)	CMI projections	⇧2%-3%	⇧1%-2%
Withdrawals	2010	2013	⇧<1%	No impact
Ill health retirements	2010	2013	⇩<1%	⇩<1%
Promotional salary growth	2010	No change	No impact	No impact
Cash commutation	75% max	75% max	No impact	No impact
50:50 option take up	n/a	10%	No impact	⇩0.5%-0.8%

We believe that the recommended 2013 valuation assumptions set out in this note will be appropriate for the majority of LGPS funds. As ever, we welcome discussion on the suitability of these assumptions and your usual Hymans contact will be happy to consider deviation from the recommended assumptions where this is appropriate for your Fund. Please get in touch with your usual contact at Hymans if you have any questions.

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Haringey Council

Report for:	**Corporate Committee** 26th November 2013	**Item number**	

Title:	**Pension Fund Quarterly Update**

Report authorised by :	J. Parr 15/11/13 **Director of Corporate Resources**

Lead Officer:	George Bruce, Head of Finance – Treasury & Pensions george.bruce@haringey.gov.uk 020 8489 3726

Ward(s) affected: N/A	**Report for** Non Key Decision

1. **Describe the issue under consideration**

1.1 To report the following in respect of the three months to 30th September 2013:

- Investment asset allocation
- Investment performance
- Responsible investment activity
- Budget management
- Late payment of contributions
- Communications

2. **Cabinet Member Introduction**

2.1 Not applicable.

3. **Recommendations**

3.1 That the information provided in respect of the activity in the three months to 30th September 2013 is noted.

4. **Other options considered**

4.1 None.

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5. Background information

5.1 This report is produced on a quarterly basis to update the Committee on a number of Pension Fund issues. The Local Government Pension Scheme Regulations require the Committee to review investment performance on a quarterly basis and sections 13 and 14 provide the information for this. Appendix 1 shows the targets which have been agreed with the fund managers.

5.2 The Pension Fund has a responsible investment policy and section 15 of this report monitors action taken in line with it. The remainder of the report covers various issues on which the Committee or its predecessor body have requested they receive regular updates.

5.3 Following the request at the Committee's meeting in September 2012, information on communication with stakeholders has been provided by officers in Human Resources and included in section 18.

6. Comments of the Chief Financial Officer and Financial Implications

6.1 The investment performance figures in section 14 show the impact of the introduction of passive fund managers in that generally the variance from target has reduced. The continuing negative performance over five years reflects the underperformance of the previous active managers which is likely to continue to show for the next few years. The quarterly performance is very close to target.

7. Head of Legal Services and Legal Implications

7.1 The Council as administering authority for the Haringey Pension Fund ("Fund") has an obligation to keep the performance of its investment managers under review. In this respect the Council must, at least every three months review the investments made by investment managers for the Fund and any other actions taken by them in relation to it;

7.2 Periodically the Council must consider whether or not to retain the investment managers. In particular members should note the continuing negative performance and the reason stated in this report as to why this is the case;

7.3 In carrying out its review proper advice must be obtained about the variety of investments that have been made and the suitability and types of investment;

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7.4 All monies must be invested in accordance with the Council's investment policy and members of the Committee should keep this duty in mind when considering this report and have regard to advice given to them.

8. Equalities and Community Cohesion Comments

8.1 There are no equalities issues arising from this report.

9. Head of Procurement Comments

9.1 Not applicable

10. Policy Implications

10.1 None.

11. Use of Appendices

11.1 Appendix 1: Investment Managers' mandates, benchmarks and targets.

12. Local Government (Access to Information) Act 1985

12.1 Not applicable

13. Investment Update

13.1 Fund Holdings at 30th September 2013

	BlackRock £000s	Legal & General £000s	CBRE £000s	Pantheon £000s	In-house £000s	Total £000s	% of Fund	Bench Mark %	Variance %
UK Equities	162,219	22,204	0	0	0	184,423	21.4	17.5	3.9
North America Equities	192,147	19,742	0	0	0	211,889	24.6	25.3	(0.7)
European Equities	44,643	40,062	0	0	0	84,705	9.9	8.6	1.3
Japanese Equities	8,422	33,149	0	0	0	41,571	4.8	4.1	0.7
Pacific ex Japan Equities	17,030	16,284	0	0	0	33,314	3.9	4.0	(0.1)
Emerging Markets Equities		89,966	0	0	0	89,966	10.5	10.5	0
Index linked Gilts	95,820	23,231	0	0	0	119,051	13.8	15.0	(1.2)
Property		0	54,239	0	0	54,239	6.3	10.0	(3.7)
Private Equity		0	0	34,156	0	34,156	4.0	5.0	(1.0)
Cash	2	0	2,113	2,149	2,735	6,999	0.8	0.0	0.8
TOTAL	520,283	244,638	56,352	36,305	2,735	860,313	100.0	100.0	0.0

NB a rebalancing of the equity portfolio agreed at the September Corporate Committee is underway.

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14. Investment Performance Update: to 30th September 2013

Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter July to September 2013.

14.1 Whole Fund

	Return	Benchmark	(Under)/Out
July-Sept 2013	1.70%	1.82%	(0.12%)
One Year	14.36%	14.97%	(0.61%)
Three Years	8.57%	8.98%	(0.41%)
Five Years	9.01%	9.69%	(0.68%)

- Performance in the quarter was very close to target. Underperformance over longer periods is driven by private equity and property.
- The negative three and five year returns are carried forward from previous manager structures.

14.2 BlackRock Investment Management

	Return	Benchmark	Variance
July-Sept 2013	2.28%	2.03%	0.25%
One Year	16.98%	16.81%	0.17%

- Total Value at 30/09/13: £520.3 million
- BlackRock manages equities and index linked passively.
- At asset class level, Blackrock's returns are either in line with or in excess of the benchmark.

14.3 Legal & General Investment Management

	Return	Benchmark	Variance
July - Sept 2013	1.22%	1.04%	0.18%
One Year	11.92%	12.69%	(0.77%)

- Total Value at 30/09/13: £244.6 million
- At investment level, L&G is able to add value over index benchmarks through timing transactions. The underperformance over one year is due to their portfolio being out of alignment with the benchmark. Rebalancing has been undertaken since the quarter end.

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14.4 CBRE Global Investors

	Return	Benchmark	(Under)/Out
July – Sept 2013	1.42%	2.40%	(0.98%)
One Year	4.41%	5.39%	(0.98%)
Three Years	3.66%	5.22%	(1.56%)
Five Years	(0.03%)	1.76%	(1.79%)

- Total Value at 30/09/13: £56.4
- For both the quarter and year, CBRE have underperformed their benchmark by 1%. The target is to out perform by 1% p.a.
- Recently, the UK portfolio has exceeded benchmark, but the overall portfolio has suffered from exposure to Italian and German funds.

14.5 Pantheon

	Return	Distributions in period	Drawdowns in period	% drawndown
July – Sept 2013	(2.52%)	£0.32m	nil	
One Year	11.71%	£3.88m	£3.68m	
Since inception	3.81%	£5.37m	£31.09m	66.6%

- Total Value at 30/09/13: £36.3
- Distributions exceeded drawdowns during the quarter as the funds moved into the distribution phase of their cycles.
- The performance target is the MCSI Worlds plus 5.75%, which for 12 months is 27.25% and 5 years 14.25%. Actual returns for five years net of fees is 6.6%. The funds are still relatively young for a true picture of long term returns to emerge. The performance benchmark (MSCI plus 5% net of fees) is challenging.

14.6 In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 30/09/13	£2.73m	AAA	1	0.33%
At 30/06/13	£3.18m	AAA	1	0.33%
At 31/03/12	£5.51m	AAA	1	0.31%
At 31/12/12	£5.08m	AAA	1	0.37%

15. Responsible Investment Activity in the three months ended 30th September 2013

BlackRock	Legal & General	LAPFF
15.1 Environmental Issues		
Blackrock met with a large, global energy company to discuss various environmental, social and governance issues. This included hydraulic fracturing for shale gas (fracking) and unconventional oil & gas production, the company's global human rights policy, global climate change, sustainability reporting, and general corporate governance matters. Of particular note was the company's work in promoting the disclosure of chemicals using in the fracking process and the key challenges that water dependence play in successful fracking operations.	In the quarter, L & G attended 82 company meetings at which environmental issues were covered 13 times and social issues 23 times. They have engaged extensively with Rio Tinto specifically focussing on their water management targets as well as more broadly on their sustainability efforts.	LAPFF was one of a group of almost 50 investors with $900bn in assets that recently wrote to US President Barack Obama to support carbon pollution standards proposed by the Environmental Protection Agency (EPA) for new power plants.

BlackRock	Legal & General	LAPFF
15.2 Governance / Remuneration Issues		
Blackrock spoke at the 'Excellence in the Boardroom event' sponsored by the Deloitte Academy on the investors view on the importance of audit processes and the importance of the work and the composition of the audit committee.	L&G met with the Royal Dutch Shell to understand the succession process behind the appointment of their new CEO. Similar succession talks were held with Microsoft with regard to replacing their CEO.	Engagement with News Corp /21st Century Fox regarding corporate governance issues. Discussions with the Investor Working Group on collective Engagements regarding shareholder

BlackRock	Legal & General	LAPFF
Across both mandates Blackrock voted on over 1,100 occasions. The main themes for voting against management in the quarter centred on the composition of the boards poor remuneration practices and the levels of independence/oversight in place. Key votes in quarter: **Dell Inc** –Blackrock voted in favour of bid to take company private. Dell's business severely impacted by the decline in the personal computing market, the company is therefore trying to transform to an enterprise service company. Michael Dell was arguing that this would be difficult to execute as a public company. Blackrock's view was that this would be in the shareholders best interests due to the cash premium being offered to shareholders, the board's rationale and the independent board committee's thorough sales process. **Office Depot** –Blackrock voted to support Starboard value LP a major shareholder of the company in its 's nomination of four dissident directors onto the Office Depot	A further meeting took place with the new Chairman of the Corporate Social Responsibility Committee for G4S at which the company's audit and compliance framework and whistle blowing programme were discussed. Discussions took place with Michael Dell and two opposing shareholders with regard to taking Dell back into private ownership. Key votes in quarter: **BTG**-voted against the amendment of the Performance Share plan due to concerns with multiplier element in its structure. **Vedanta**- voted against remuneration report due to concerns with Employee Ownership Plan not being aligned with interests of long term shareholders. **Investec, Richemont & Indra Sistemas**-voted against election of non executive directors/board directors due to concerns as to their independence.	engagement.

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BlackRock	Legal & General	LAPFF
Board .Blackrock considered the appointments would add value to the board as a result of their skills and experience.	Dell Inc–voted against Michael Dell and Silver Lake Partners offer to buy the company from shareholders due to concerns with cash offer and inadequate search for other interested parties. However this transaction was ultimately approved.	

BlackRock	Legal & General	LAPFF
15.3 Other Engagement activity		
Blackrock undertook a thematic engagement series , seeking to understand the corporate responsibility and sustainability practices across the retail and grocer sector. To that end, they met with a number of UK retailers and grocers to learn more about their respective programmes, with particular focus on responsible sourcing, supply chain management and industry collaboration.	Meetings were held with Associated British foods to discuss its supplier side policies, as its Primark clothes are manufactured in Bangladesh in multi-user factories. Supplier side discussions were also held with Tesco and Sainsbury, however their policies were to use single dedicated suppliers.	

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16. Budget Management – six months to 30th September 2013

	Prior year £'000	Actual £'000	Variance (under)/ overspend £'000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	4,400	4,273	127
Employer Contributions	16,000	14,675	1,325
Transfer Values in	2,000	864	1,136
Total Income	22,400	19,812	2,588
Expenditure			
Pensions & Benefits	(20,000)	(20,351)	351
Transfer Values Paid	(2,600)	(532)	(2,068)
Administrative Expenses	(400)	(291)	(109)
Total Expenditure	(23,000)	(21,174)	(1,826)
Net of Contributions & Benefits	(600)	(1,362)	762
Returns on investment			
Net Investment Income	1800	1,164	636
Investment Management Expenses	(800)	(357)	(443)
Net Return on Investment	1000	807	193
Total	**400**	**(555)**	**955**

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17. Late Payment of Contributions

17.1 The table below provides details of the employers who have made late payments during the last quarter.

Employer	Occasions late	Average Number of days late	Average monthly contributions(£)
Fusion	1	4	19,600
TLC	1	4	4,183

18. Communication Policy

18.1 Two sets of regulations govern pension communications in the LGPS: The Disclosure of Information Regulations 1996 (as amended) and Regulation 67 of the Local Government Pensions Scheme (Administration) Regulations 2008 as amended.

18.2 In March 2011, the Council approved the Pensions Administration Strategy Statement (PASS). The PASS sets out time scales and procedures which are compliant with the requirements of the Disclosure of Information Regulations. The PASS is a framework within which the Council as the Administering Authority for the Fund can work together with its employing bodies to ensure that the necessary statutory requirements are being met.

18.3 In June 2008 the Council approved the Policy Statement on Communications with scheme members and employing bodies. The Policy Statement identifies the means by which the Council communicates with the Fund members, the employing bodies, elected members, and other stakeholders. These cover a wide range of activities which include meetings, workshops, individual correspondence and use of the internet. In recent times, the Pensions web page has been developed to provide a wide range of employee guides, forms and policy documents. Where possible, Newsletters and individual notices are sent by email to reduce printing and postage costs.

18.4 The requirement to publish a Communications Policy Statement recognises the importance that transparent effective communication has on the proper management of the LGPS.

18.5 During the second quarter of 2013-14, the Pension Fund accounts and annual report for the year ended 31st March 2013 have been added to the Pension fund web page. Guidance notes on the new Pension Fund scheme to be introduced from 1st April 2014 have also been inserted on the web page.

Appendix 1 – Investment Managers mandates, benchmarks and targets

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
BlackRock Investment Management	55.7%	Global Equities & Bonds	See overleaf	Index (passively managed)
Legal & General Investment Management	29.3%	Global Equities & Bonds	See overleaf	Index (passively managed)
CBRE Global Investors	10%	Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period
Pantheon Private Equity	5%	Private Equity	MSCI World Index plus 5%	+ 0.75% gross of fees p.a.
Total	**100%**			

Asset Class	Benchmark	BlackRock Investment Management	Legal & General Investment Management	Total
UK Equities	FTSE All Share	14.9%	2.6%	17.5%
Overseas Equities		28.8%	23.7%	52.5%
North America	FT World Developed North America GBP Unhedged	*21.5%*	*3.8%*	*25.3%*
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	*4.3%*	*4.3%*	*8.6%*
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	*2.0%*	*2.0%*	*4.0%*
Japan	FT World Developed Japan GBP Unhedged	*1.0%*	*3.1%*	*4.1%*
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	*0.0%*	*10.5%*	*10.5%*
Index Linked Gilts	FTA Index Linked Over 5 Years Index	12.0%	3.0%	15.0%
		55.7%	29.3%	85.0%

Report for:	Corporate Committee	Item Number:	

Title:	Local Government Pension Scheme IT system – contract renewal

Report Authorised by:	Jacquie McGeachie - Interim Head of Human Resources and Organisational Development

Lead Officer:	Janet Richards Pensions Manager

Ward(s) affected: None	Report for Key/Non Key Decisions: Non Key Decision

1. **Describe the issue under consideration**
   - 1.1. In order to carry out its functions as an administering Authority under the Local Government Pension Scheme (LGPS), the Council uses an IT system called Axise supplied by an external IT contractor called Heywood.
   - 1.2. On 1st April 2014, there are significant changes taking place to the LGPS as it moves from a final salary pension scheme to a career average scheme. Furthermore, support from Heywood for the existing IT system will expire on 31st December 2014.
   - 1.3. This report proposes that the Council enters into a contract with Heywood for a new IT system without first undertaking a procurement exercise. The recommendation is made considering value for money and security of supply.

2. **Cabinet Member introduction**

   Not applicable

3. Recommendations

3.1 That the Corporate Committee award a contract for a period of three years with the option to extend for a further two years to Heywood for the provision of a managed service, including support, maintenance, and required upgrade.

4. Alternative options considered

4.1. It is essential that the Council continues to have a managed service for its pensions administration function. Without such a system the administration of the scheme would not be possible. This would include providing members annual statements of benefits and ensuring that members receive the correct benefit payments when they retire. The current system used by the Council, Axise will not be supported by the supplier Heywood after 31st December 2014 and therefore to continue using this system would carry significant risks. Therefore the Council has no option but to move onto a new system.

4.2. The Pension Administration System (Axise) is proprietary software from Heywood and as such it is not possible to tender for just the existing support and maintenance package of that system. On the contrary, any tender would require that supply of a complete system is specified and replaced if necessary.

4.3 To undertake such a tender requires a major investment in resource to specify the Council's requirements and to run and evaluate the tender. In changing a system, the Council would need to procure new licenses, new hardware, train all staff and run a parallel system to ensure confidence in migration. This would in itself carry significant costs in both running a procurement exercise as well as migrating onto a new system if an alternative provider were sourced.

4.4 In view of the legislative changes to the provision of administering the pension scheme, outlined in paragraph 5 below, it would not be in the Council's best interest to tender at this particular time

5. Background information

5.1. The Council is an administering body under the Local Government Pension Scheme (LGPS) for approximately 20000 pension fund members including Haringey Council employees, deferred pensioners and ex employees who are in receipt of a pension under the LGPS.

5.2. The current contract was let in November 2009 for a managed service whereby an external IT contractor called Heywood provides the system hardware, perpetual licences and ongoing support of the system. The performance of Heywood in providing a managed service for Axise has been satisfactory over the course of the contract.

5.3. Following the Lord Hutton report on reform of public sector pension schemes, the LGPS will be changing from a final salary pension scheme to a career average pension scheme from 1 April 2014. Therefore, major changes are required to the IT administration software to implement the changes, not least because of the significant changes by which LGPS member's final benefits are calculated.

5.4. Furthermore, the current Axise system will not be supported by the manufacturer after 31 December 2014. If the Council continues to use this software beyond this date there is a significant business continuity risk that it will not be able to administer the pension scheme on behalf of approximately 13000 active and deferred members and approximately 7000 pensioners. In addition, any future changes to the LGPS which are inevitable (for example the annual pension payment uplift) would not be able to be undertaken by the Axise system as Heywood will not be providing software updates for the system. It will, therefore, be necessary to migrate to the new software version, Altair. In addition to being compliant with the new LGPS regulations, Altair provides greater functionality than Axise including member self service. Altair will allow members of the LGPS to update changes to their personal details, and view their pension forecasts online.

5.5. It is, therefore, an opportune time to migrate to Altair, as this would minimise the time invested by the Council in testing the new pension scheme.

5.6. There is a cost to the migration as set out in Annex A attached. Heywood can accommodate such a move and have provided their quotation based on a 3 year contract with an option of a further 2 years extension to maximise the discounts available.

5.7. As Altair is proprietary software to Heywood they were requested to provide terms for a contract for 3 + 2 years to follow on from the existing contract. The added value of such a contact will be the ability for the Council to continue to manage the administration of the pension fund and the projects noted above, whilst continuing to manage pension administration electronically. The negotiations were based on achieving value for money for the Council, and taking account of system efficiencies outlined in paragraph 5.4 above.

5.8. Currently Heywood provides IT support for 85% of administration bodies under the LGPS. In other words there are few, if any, comparator providers. However, during the life of the proposed contract it is possible that the position may change. Therefore, during the 3 years of this contract a full market test will be carried out to ascertain the state of the market and, if appropriate, a tendering process will take place in advance of any decision to take up the option of the 2 year extension in the proposed contract.

6 Costs

The cost of migrating to the new Altair system based on a 3+2 year contract would cost in 2013/2014 £229,758 (including one off license and implementation costs) with an ongoing annual running cost of £103,670.

7 Comments of the Chief Finance Officer and financial implications

7.1 The Chief Finance Officer has been consulted over the contents of the report and confirms that the annual and one-off costs can legitimately be charged against the pension fund.

7.2 The proposed costs of both the standard and fixed term contract are both higher than the existing contract however, given that the current system will fall out of life in December 14, coupled with the fact that the new system must be compliant with the new LGPS regulations leave few options.

7.3 The report highlights that there is currently little competition in this field so significant time and effort could be undertaken for potentially little realistic chance of driving out further value.

7.4 It is expected that internal effort to migrate onto this new system can be managed within existing resources.

7.5 Members will be aware that there is current interest around creating larger pension schemes covering more than one authority. At this stage, there are not clear decisions and it is unlikely that anything tangible will have been concluded before the end of the proposed 3 year contract period. As such, it appears that overall the benefits of a reduced annual fee and one-off costs outweigh the disadvantages of being tied into a longer term contract.

8 Head of Legal Services and legal implications

8.1 The Head of Legal Services has been consulted in the preparation of this report, and makes the following comments.

8.2 The services to which this report relates are priority services and, therefore, are subject to the Public Contracts Regulations 2006 (the Regulations), which includes requirements in respect of European tendering.

8.3 One of the approved tender processes set out in the Regulations, is the negotiated procedure. Under Regulation 14(1)(a)(iii) of the Regulations, a Contracting Authority may use the negotiated procedure without publication of an OJEU notice where, for technical or artistic reasons, the contract may only be awarded to a particular economic operator.

8.4 In addition, Contract Standing Orders (CSO) allow for the submission of a bid from an individual contractor without following a tender process where the services relate to a proprietary product, and, for technical or artistic reasons, the contract may only be awarded to a particular contractor (CSO 9.01(f)).

8.5 The Assistant Chief Executive Directorate has followed this approach, and invited a bid from Heywood for the Altair system.

8.6 Paragraph 3.03 of the CSO gives the Corporate Committee the same powers and duties as given to the Cabinet under CSO when the matter relates to "procurement decisions and award of contract relating to the Pension Fund".

8.7 Under CSO, Cabinet has the authority to award contracts valued over £250,000 and so as the contract is Pension Fund related, the Corporate Committee may award this contract.

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

9 Equalities and Community Cohesion Comments

10 Head of Procurement Comments

The pensions system is proprietary software and as such it can only be supported by the incumbent supplier, Heywoods and CSO 9.01(f) is used to support the action taken under Regulation 14(1) (a) (iii) of the Public Contracts Regulations 2006.

The market has been investigated and, as stated, is limited which means that a tender exercise at this stage is unlikely to provide adequate comparison and competition for an incumbent supplier especially considering potential switching costs. There is a clear need to upgrade the existing versions and to undertake developments to support the Regulatory changes.

It is therefore in the Council's overall best interests to agree a contract with Heywoods for a three year period, with option to extend for two years, to secure support for the Regulatory changes and the new software version.

11 Policy Implication

12 Reasons for Decision

13 Use of Appendices

14 Local Government (Access to Information) Act 1985

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

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

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Report for:	Corporate Committee 26th November 2013	**Item number**	

Title:	Treasury Management September 2013 quarterly Activity & Performance update

Report authorised by :	J Parker 15/11/13. Director of Corporate Resources

Lead Officer:	George Bruce, Head of Finance – Treasury & Pensions George.bruce@haringey.gov.uk 020 8489 3726

Ward(s) affected: N/A	**Report for** Non Key Decision

1. Describe the issue under consideration

1.1 This report updates the Committee on the Council's treasury management activities and performance in the quarter to 30th September 2013.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That members note the Treasury Management activity undertaken during the quarter to 30th September 2013 and the performance achieved.

4. Other options considered

4.1 None.

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5. Background information

5.1 The Council approved the Treasury Management Strategy Statement for 2013/14 on 27th February 2013. The Corporate Committee is responsible for monitoring treasury management activity and this is achieved through the receipt of quarterly reports. This report forms the 2nd quarterly monitoring report for 2013/14.

5.2 Government guidance on local authority treasury management states that local authorities should consider the following factors in the order they are stated:

Security - Liquidity - Yield

The Treasury Management Strategy reflects these factors and is explicit that the priority for the Council is the security of its funds.

5.3 The quarterly reports during 2013/14 are structured to cover borrowing first and then investments according to these factors, so that members can see how they are being addressed operationally.

6. Comments of the Chief Financial Officer and financial implications

6.1 Interest rates remain low and so the strategy of minimising cash balances is continuing in 2013-14. Borrowing is being taken only when required and the majority of the loans have been taken from other local authorities at very low rates on short term bases. However longer term interest rates continue to be carefully monitored. The ability to take advantage of low interest rates in this way has resulted in anticipated saving on the treasury management budget.

7. Head of Legal Services and Legal Implications

7.1 The contents and recommendation of this report are in accordance the Treasury Management Strategy Statement and consistent with legislation governing the financial affairs of the Council. Members should note the shortfall mentioned in paragraph 13.3. In considering the report Members must take into account the expert financial advice available to it and any further oral advice given at the meeting of the Committee.

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8. Equalities and Community Cohesion Comments

8.1 There are no equalities issues arising from this report.

9. Head of Procurement Comments

9.1 Not applicable.

10. Policy Implications

10.1 None applicable.

11. Use of Appendices

11.1 Appendix 1: Summary of Treasury Management activity of performance
Appendix 2: Prudential Indicators

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Treasury Management Activity and Performance: Borrowing

13.1 The Treasury Management Strategy Statement places a high emphasis on security of the Council's funds. One of the ways to do this is to minimise the funds held which need to be invested. This is where the borrowing and investment strategies interact.

13.2 During the financial year to date officers have been managing cash balances to keep them to a minimum and only borrowing externally when it is required to meet the Council's obligations. Since 1st April no new loans have been taken and debt of £41.0 million repaid, of which £30 million is short term local authority loans and £11 million is maturing PWLB debt.

13.3 The cashflow forecast is showing a likely shortfall in Q1, 2014 of the order of £20 million. In order to address this, the current intention is to fund via short term local authority borrowing for around six months. The rates payable should be around 0.4%.

14. Treasury Management Activity and Performance: Security

14.1 The Council has sought to minimise its security risk by setting limits on each institution on the lending list. The Council has complied with all these limits during the financial year to date.

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14.2 The economic environment remains uncertain, and given this background, the Council has kept cash investments to a minimum and short term. Money Market Funds continue to be used extensively as the portfolios are spread across a range of underlying investments, which diversifies risk. They also provide instant access enabling officers to take action quickly if there are any concerns about creditworthiness. The majority of the remainder of the Council's investments are with the government guaranteed Debt Management Office, with a small balance at NatWest.

14.3 The deposits continue to be spread across the available money market funds to further minimise security risk. The table below shows the Council's deposits on 30th September 2013. These include pension fund balances of £2.5 million, but exclude Icelandic balances, see paragraph 17.

:

Institution	Long Term Credit Rating	Amount (£m)	% of total deposits
Debt Management Office	AA+*	15.74	36.3
BlackRock MMF	AAA	5.13	11.8
Deutsche MMF	AAA	4.04	9.3
Goldman Sachs MMF	AAA	4.37	10.1
Invesco MMF	AAA	2.06	4.7
JP Morgan MMF	AAA	3.17	7.3
RBS MMF	AAA	4.10	9.4
NatWest SIBA	A-	4.80	11.1
Total		43.41	100.0

** The Debt Management Office does not have a credit rating, so the UK Government rating is used as a proxy.*

14.4 Arlingclose, the Council's treasury management advisers, has a way of scoring the level of credit risk the Council is taking. This measure scores 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

14.5 The scores for the latest quarter are shown below alongside the previous three quarters for comparison:

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	December 2013	March 2013	June 2013	September 2013
Value weighted	2.4	2.5	3.3	3.50
Time weighted	1.9	2.9	1.9	2.11

14.6 The scores have increased this quarter due to a higher proportion invested in money market funds. This represents an average credit rating of between AA and AA-.

15. Treasury Management Activity and Performance: Liquidity

15.1 Once the Council is satisfied that security risk is being managed, the next consideration in treasury management is liquidity. The Council has a number of inflows and outflows every month and it is important that the Council's funds are managed to ensure there is sufficient liquidity when it is required. This is achieved through cashflow forecasting and monitoring.

15.2 With cash balances relatively low and projected to turn negative in Q1, 2014, investments have been kept short term with only DMO trades being longer than overnight as can be seen from the table below.

15.3 The table below shows the Council's deposits at 30th September 2013, the term of each of the deposits and it also shows the calculated weighted average maturity of the portfolio.

Institution	Term of deposit (days)	Amount (£m)
Deutsche	1	4,035,000
Goldman Sachs	1	4,370,000
JP Morgan	1	3,165,000
RBS	1	4,105,000
BlackRock – sterling	1	4,390,000
BlackRock – Gov	1	740,000
Invesco	1	2,060,000
DMO	7	5,000,000
DMO	14	7,240,000
DMO	14	1,850,000
DMO	2	1,650,000
NatWest SIBA	1	4,800,000
Average maturity (days)/Total Value	4.45	43,405,000

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16. Treasury Management Activity and Performance: Yield

16.1 Only once security and liquidity have been considered and the Council is satisfied it has taken all steps to minimise these risks, should yield be a factor. Base rate has remained at 0.5% throughout the financial year to date and the Council's treasury management adviser, Arlingclose, is forecasting that it will remain at this rate until at least the end of 2016.

16.2 The interest rates which money market funds are paying have reduced to between 0.30% and 0.40%. The Debt Management Office continues to pay 0.25% on all deposits regardless of the period of investment. The call account with NatWest earns 0.5% p.a. Longer maturities are paying rates that in absolute terms are not significantly higher e.g. 0.75% to 1% for 12 months deposits. Quarterly earnings on the portfolio are averaging approximately £40,000 at an average rate of 0.32%.

16.3 The interest payable on borrowing for 2013-14 is currently projected at £18.0 million (HRA £12.0 million and General Fund £6.0 million). The projections prior to the start of the year were total interest of £19.7 million (HRA £13.2 million and General Fund £6.5 million). The savings arise from less borrowing being required than was originally anticipated and prior year borrowing being of short maturities.

16.4 The average rate payable on the borrowing portfolio is currently 5.44%.

17. Icelandic Banks Update

17.1 The distributions received from the Icelandic banks now total £28.4m out of the original £36.9m invested, which is 77%. Final recovery rates of 100% for Glitnir, 98% for Landsbanki and 95% for Heritable are expected.

18. Prudential Indicators

18.1 The Council set prudential indicators for 2013/14 in February 2013. The set of indicators is made up of those which provided an indication of the likely impact of the planned capital programme and those which are limits set on treasury management activity. Appendix 2 sets out the original indicators, the current forecast for each of the capital indicators and the current position on each of the treasury management limits.

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18.2 None of the limits on treasury management have been breached in the year to date. Borrowing is well within the operational and authorised limits set due to the continued policy of using internal cash balances to fund the capital programme.

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Appendix 1: Summary of Treasury Management Activity & Performance

1. Treasury Portfolio

	Position at March 2013 £000	Position at September 2013 £000
Long Term Borrowing PWLB Long Term Borrowing Market Short Term Borrowing	206,702 125,000 30,000	195,715 125,000 0
Total Borrowing	361,702	320,715
Investments: Council Investments: Icelandic deposits in default	14,195 12,455	40,960 8,331
Total Investments	26,650	49,291
Net Borrowing position	335,052	271,424

2. Security measure

	March 2013	September 2013
Credit score – Value weighted	2.5	3.50
Credit score – Time weighted	2.9	2.11

3. Liquidity measure

	March 2013	September 2013
Weighted average maturity – deposits (days)	4.0	4.5
Weighted average maturity – borrowing (years)	27.7	29.1

The repayment of short term local authority borrowing has increased the average maturity.

4. Yield measure

	March 2013	September 2013
Interest rate earned	0.31%	0.32%
Interest rate payable	5.38%	5.44%

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Appendix 2: Prudential Indicators

No.	Prudential Indicator	2013/14 Original Indicator	2013/14 Position/Forecast Sept 2013
CAPITAL INDICATORS			
1	Capital Expenditure	£k	£k
	General Fund	47,811	46,000
	HRA	34,202	32,000
	TOTAL	82,013	78,000
2	Ratio of financing costs to net revenue stream	%	%
	General Fund	2.62	2.62
	HRA	12.94	12.94
3	Capital Financing Requirement	£k	£k
	General Fund	277,726	250,000
	HRA	271,096	270,000
	TOTAL	548,822	520,000
4	Incremental impact of capital investment decisions	£	£
	Band D Council Tax	8.77	8.77
	Weekly Housing rents	0.13	0.13

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No.	Prudential Indicator	2013/14 Original Indicator		Position / forecast Sept. 2013
5	Borrowing Limits	£k		£k
	Authorised Limit / actual debt	671,293		320,715
	Operational Boundary/actual debt	537,280		320,715
6	HRA Debt Cap	£k		£k
	Headroom	55,824		55,824
7	Gross debt compared to CFR	£k		£k
	Gross debt	393,972		N/A
	CFR	548,822		N/A
8	Upper limit – fixed rate exposure	100%		98%
	Upper limit – variable rate	40%		2%
9	Maturity structure of borrowing (U: upper, L: lower)	L	U	
	under 12 months	0%	40%	12.6%
	12 months & within 2 years	0%	35%	3.7%
	2 years & within 5 years	0%	35%	10.7%
	5 years & within 10 years	0%	35%	11.4%
	10 yrs & within 20 yrs	0%	35%	5.3%
	20 yrs & within 30 yrs	0%	35%	3.4%
	30 yrs & within 40 yrs	0%	35%	4.5%
	40 yrs & within 50 yrs	0%	50%	27.1%
	50 yrs & above	0%	50%	21.3%
10	Sums invested for > 364 days	£0		£0
11	Adoption of CIPFA Treasury Management Code of Practice	√		√

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Report for:	Corporate Committee 26th November 2013	**Item number**	

Title:	Treasury Management Strategy Statement 2014/15 – 2016/17

Report authorised by :	J. Parker 15/11/13. Director of Corporate Resources

Lead Officer:	George Bruce, Head of Finance – Treasury & Pensions George.bruce@haringey.gov.uk 020 8489 3726

Ward(s) affected: N/A	**Report for Non Key Decision**

1. Describe the issue under consideration

1.1 To present the proposed Treasury Management Strategy Statement for 2014/15 to 2016/17 to this Committee prior to it being scrutinised by Overview & Scrutiny Committee, represented to Corporate Committee in January 2014 and finally to full Council in February 2014 for final approval. Prudential Indicators will be included in the January 2014 update.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the proposed Treasury Management Strategy Statement for 2014/15 to 2016/17 be agreed and approved for release to Overview and Scrutiny Committee before being represented to Corporate Committee, subject to updating to reflect the agreed capital programme.

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4. Other options considered

4.1 None.

5. Background information

5.1 The CIPFA Treasury Management Code of Practice requires all local authorities to agree a Treasury Management Strategy Statement including an Investment Strategy annually in advance of the financial year. The strategy should incorporate the setting of the Council's prudential indicators for the three forthcoming financial years.

5.2 The CIPFA Treasury Management Code of Practice requires that the Treasury Management Strategy Statement is formulated by the Committee responsible for the monitoring of treasury management, is then subject to scrutiny before being approved by full Council. Corporate Committee is responsible for formulating the Treasury Management Strategy Statement for recommendation to full Council through Overview and Scrutiny Committee and in consultation with the Cabinet Member for Finance, Employment and Carbon Reduction.

5.3 In previous years the Treasury Management Strategy Statement has been presented to Corporate Committee in January before being considered by Overview and Scrutiny Committee a few days later. However due to the timing of meetings in January 2014, it has become necessary for the Committee to consider the strategy early. The proposed capital programme for future years is not yet ready and so it has not been possible to include debt, investment and prudential indicator projections.

5.4 The figures and the proposed prudential indicators will be updated once the capital programme is approved by Cabinet in December, so that they accurately reflect the Council's plans. This report with the updated figures will then be presented to this Committee and Overview & Scrutiny Committee in January before the strategy is presented to full Council for final approval in February. It is proposed to provide training on treasury issues prior to the January Corporate Committee meeting.

6. Comments of the Chief Financial Officer and Financial Implications

6.1 The approval of a Treasury Management Strategy Statement and prudential indicators are requirements of the CIPFA Treasury Management Code of Practice and CIPFA Prudential Code. The proposed strategy of minimising borrowing and continuing to make

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use of internal balances not only minimises costs, but also reduces the credit risk associated with investments, as the amount being invested is low.

6.2 New borrowing will still be required during 2014/15 due to planned maturities, and it is proposed that the cost of refinancing be minimised by borrowing short term from local authorities to maintain liquidity and taking opportunities to fix borrowing rates from the PWLB as they arise.

7. Head of Legal Services and Legal Implications

7.1 The Council must make arrangements for the proper administration of its financial affairs and its power of borrowing is set out in legislations. In addition further changes were introduced to the way the Housing Revenue Account is dealt with as a result of the Localism Act 2011. The level of HRA Capital Financing Requirement must remain within the debt cap set by the Department of Communities and Local Government.

7.2 The Council is required to determine and keep under review its borrowing and in complying with this requirement it must have regard to the code of practice entitled the "Prudential Code for Capital Finance in Local Authorities" as published by CIPFA from time to time. In addition, the Council adopted the CIPFA Treasury Management Code of Practice in May 2002.

7.3 As mentioned in this report the Code of Practice requires the Council to agree a Treasury Management Strategy Statement (TMSS) (including an Investment Strategy). In considering the report Members must take into account the expert financial advice available within it and any further oral advice given at the meeting of the Committee. In particular, members should note the need for short term borrowing.

8. Equalities and Community Cohesion Comments

8.1 There are no equalities issues arising from this report.

9. Head of Procurement Comments

9.1 Not applicable.

10. Policy Implications

10.1 None applicable.

11. Use of Appendices

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11.1 Appendix 1: Draft Treasury Management Strategy Statement 2014/15 – 2016/17.

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Proposed Treasury Management Strategy Statement

13.1 As set out in paragraph 5.3 above no debt, investment or prudential indicator projections for future year have so far been included. This is because the capital programme is not due to be considered by Cabinet until December. The lack of precise figures at this stage does not affect the proposed strategies for borrowing and investing.

13.2 Once the capital programme is agreed by Cabinet, the figures and prudential indicators will be updated to reflect the programme. This will impact on tables 1 to 9 in the strategy. This report with the updated figures will then be presented to this Committee and to Overview & Scrutiny Committee in January before the strategy is presented to full Council for final approval in February 2014 as part of the Financial Planning report.

13.3 In 2014/15 a continuation of very low short term interest rates compared to medium and long term rates is expected throughout the year. This means that there will be an on-going “cost of carry” if funds are borrowed in advance of capital expenditure being incurred. Therefore the Council plans to continue to run a strategy of keeping cash balances low and invested short term and to borrow only when required.

13.4 As there are loans due to mature during 2014/15, and the Council has already maximised its internal borrowing position, new borrowing will be required. It is proposed that short term loans are taken from other local authorities to maintain liquidity, and that opportunities to obtain PWLB fixed rate loans at reasonable rates are taken as they arise on the advice of the Council’s treasury management advisers.

13.5 For the investment strategy, the definitions of specified and non-specified investments have been redefined to recognise that some existing counterparties do not meet the definition of the highest credit quality. It is proposed that credit ratings below AA- (previously A-) are deemed non-specified. There is one exception to the minimum long term credit rating of A- for NatWest, which will continue to be used for

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overnight and weekend maturities while it continues to provide banking services to the Council if other investment opportunities are not available. Although the bank is currently rated A or A- by the three ratings agencies, there is a risk of ratings deterioration.

13.6 The counterparty list (annex 5) continues to restrict investments to the existing UK banks and building societies and the DMO. Money market funds are no longer listed by name as the credit quality is derived from the underlying investments and not the name of the manager. A new asset class, enhanced cash funds is discussed in detail (annex 4). No overseas banks have been included in the proposed counterparty list although some have higher credit quality than the listed UK banks and their use is supported by Arlingclose. It is planned to discuss the use of selected overseas banks with this Committee in conjunction with training to the January meeting, which may lead to a revised counterparty list.

13.7 Although the minimum criterion for the Council's lending list is set with reference to credit ratings, the Council will review a range of information in addition to credit ratings when determining credit worthiness. Within the strategy statement, the proposed limits for time and amounts are maximum limits, and the list of counterparties is the broadest range which can be used. However, operationally the limits applied and counterparties used are reviewed regularly and where necessary restricted in response to any concerns about creditworthiness to ensure security of investments remains the priority for the Council. In particular, maximum maturities recommended by Arlingclose will be followed.

13.8 The policy to minimise debt by fully using internal balances means that investment balances will also be minimised and therefore will be kept short term (it is unlikely that new deposit maturities will exceed three months) and balances with individual counterparties will be much lower than the limits contained within the strategy.

APPENDIX 4

Treasury Management Strategy Statement and Investment Strategy 2014/15 to 2016/17

Contents

Annexes

1. Background

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the Communities and Local Government (CLG) Department's Investment Guidance.

1.2 CIPFA has defined Treasury Management as:
"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.3 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are integral elements of treasury management activities and include Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Refinancing Risk and Legal and Regulatory Risk.

1.4 The strategy takes into account the impact of the Council's proposed Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates.

1.5 The purpose of this report is to propose:

- Treasury Management Strategy - Borrowing in Section 4, Investments in Section 5
- Prudential Indicators – these are detailed throughout the report and summarised in Annex 2 [Omitted – will be added in January 2014].
- MRP Statement – Section 10

2. CIPFA Treasury Management Code of Practice

2.1 Adoption of the CIPFA Treasury Management Code of Practice is one of the Prudential Indicators. The Council originally adopted the Code of Practice in May 2002. Revisions to the Code in 2009 and 2011 have been reflected in updated versions of all policies and procedures.

3. Balance Sheet and Treasury Position

3.1 The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with Balances and Reserves, are the core drivers of Treasury Management activity. The estimates for each pool, based on the current proposed Revenue Budget and Capital Programmes, are:

Table 1a: Treasury Position – General Fund

	31/03/2013 Estimate £'000	31/03/2014 Estimate £'000	31/03/2015 Estimate £'000	31/03/2016 Estimate £'000	31/03/2017 Estimate £'000
General Fund CFR	254,229				
Less: Share of existing External Debt & Other Long Term Liabilities	183,907				
Internal Borrowing	70,322				
Cumulative Net Borrowing Requirement	0				

Table 1b: Treasury Position – HRA

	31/03/2013 Estimate £'000	31/03/2014 Estimate £'000	31/03/2015 Estimate £'000	31/03/2016 Estimate £'000	31/03/2017 Estimate £'000
HRA CFR	271,714				
Less: Share of Existing External Debt & Other Long Term Liabilities	264,482				
Internal Borrowing	7,232				
Cumulative Net Borrowing Requirement	0				

3.2 The tables above show how the Council's capital requirement is funded currently and how it is expected to be funded in the coming years. Due to the differential between short and long term interest rates (discussed in more detail in section 4), the Council has maximised the amount of internal borrowing that can be done. As short term interest rates are not expected to rise over the next two years, it is anticipated that a significant level of internal borrowing will continue, with the only reduction expected reflecting the planned movement in reserves.

3.3 Ensuring that gross external debt does not exceed the CFR over the medium term is a key indicator of prudence. There has been no difficulty meeting this requirement in 2013-14 to date, nor are there any difficulties envisaged for future years, as the levels of internal borrowing in tables 1a and 1b above demonstrate.

3.4 It is a requirement for the HRA CFR to remain with the limit of indebtedness or "debt cap" set by the DCLG at the time of the implementation of self-financing. The table below shows the current expected level of the HRA CFR and the debt cap. Any decision by the Council to undertake new borrowing for housing will cause the future years' debt predictions for the HRA debt pool to increase.

Table 2: HRA Debt Cap

	31/03/2013 Actual £'000	31/03/2014 Estimate £'000	31/03/2015 Estimate £'000	31/03/2016 Estimate £'000	31/03/2017 Estimate £'000
HRA CFR	271,096				
HRA Debt cap	327,538				
Headroom	56,442				

3.5 Table 3 below shows proposed capital expenditure over the coming three financial years. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and housing rent levels.

Table 3: Capital Expenditure

	2012/13 Actual £'000	2013/14 Approved £'000	2013/14 Projected Out-turn £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2015/16 Estimate £'000
General	41,317	47,811				
HRA	40,673	34,202				
Total	81,990	82,013	0	0	0	0

3.6 Capital expenditure is expected to be financed or funded as follows:

Table 4: Capital Financing

	2012/13 Estimate £'000	2013/14 Approved £'000	2013/14 Projected Out-turn £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Capital receipts	9,608	17,036				
Other grants & contributions	7,194	11,484				
Government Grants	27,278	15,278				
Reserves / Revenue contributions	30,941	30,340				
Total Financing	75,021	74,138	0	0	0	0
Borrowing	5,379	8,875				
Total	80,400	83,013	0	0	0	0

3.7 As an indicator of affordability the table below shows the incremental impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Table 5: Incremental Impact of Capital Investment Decisions

	2012/13 Actual £'000	2013/14 Approved £'000	2013/14 Projected Out-turn £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Increase in Band D Council Tax	0.41	8.77				
Increase in Average Weekly Housing Rents	0.09	0.13				

3.8 The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on costs net of investment income.

Table 6: Ratio of Financing Costs to Net Revenue Stream

	2012/13 Actual %	2013/14 Approved %	2013/14 Projected Out-turn %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
General Fund	2.78	2.62				
HRA	13.18	12.94				

4. Borrowing Strategy

4.1 A breakdown of the Council's current and expected external borrowing plus other long-term liabilities is shown in Annex 1 [to be added]. This is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

4.2 The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

Table 7: Authorised Limit for External Debt

	2012/13 Actual Debt £'000	2013/14 Approved £'000	2013/14 Projected Out-turn £'000	2014/15 Authorised Boundary £'000	2015/16 Authorised Boundary £'000	2016/17 Authorised Boundary £'000
Borrowing	361,702	569,256	339,262			
Other Long-term Liabilities	32,270	102,037				
Total	393,972	671,293				

4.3 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Table 8: Operational Boundary for External Debt

	2012/13 Actual Debt £'000	2013/14 Approved £'000	2013/14 Projected Out-turn £'000	2014/15 Authorised Boundary £'000	2015/16 Authorised Boundary £'000	2016/17 Authorised Boundary £'000
Borrowing	361,702	469,256	339,262			
Other Long-term Liabilities	32,270	68,024				
Total	393,972	537,280	339,262	0	0	0

4.4 The Director of Corporate Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of Corporate Committee.

4.5 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided in Annex 3 indicates that an acute difference between short and longer term interest rates is expected to continue beyond 2016. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment.

4.6 This "cost of carry" has been a feature of money markets since 2009-10 and by essentially lending its own surplus funds to itself (i.e. internal borrowing) the Council has minimised borrowing costs and reduced overall treasury risk by reducing the level of its external investment balances. As this position is expected to continue throughout 2014-15, there are no plans to replace this internal borrowing with external borrowing. When the 2013-14 strategy was prepared it was projected that new external borrowing of approximately £80 million was required in the year to refinance maturing debt. Currently, new debt is forecast at £20 million and will comprise relatively short duration local authority borrowing to minimize interest costs. Debt maturities of £45 million in 2014-15 (including £20 million of under one year debt taken out in 2013-14) will require refinancing.

4.7 The Council will adopt a flexible approach to this borrowing in consultation with its treasury management advisers, Arlingclose Ltd. The following issues will be considered prior to undertaking any external borrowing:

- Affordability;

- Maturity profile of existing debt;
- Interest rate and refinancing risk;
- Borrowing source.

4.8 In conjunction with advice from its treasury management adviser, Arlingclose Ltd, the Council will keep under review the following borrowing options:
- PWLB loans
- Borrowing from other local authorities
- Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
- Borrowing from the Money Markets
- Capital markets (stock issues, commercial paper and bills)
- Structured finance
- Leasing

4.9 The “cost of carry” discussed above has resulted in an increased reliance upon shorter dated and variable rate borrowing. These types of borrowing inject volatility into the debt portfolio in terms of interest rate risk, however this is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Council’s exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference between variable rate and longer term borrowing costs. A narrowing in the spread by 0.5% will result in a review of the borrowing strategy in conjunction with the Council’s treasury management advisers to determine whether the exposure to shorter dated and variable rates is maintained or altered. In recent months this spread has widened rather than shortened.

4.10 The Council has £125m of loans which are LOBO loans (Lender’s Options Borrower’s Option) and all of them are in their call periods. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan at which point the Borrower can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Council since the decision to call a LOBO is entirely at the lender’s discretion. As LOBOs currently make up 35% of the total external debt portfolio, this is a significant risk. However, at the present time the interest rates on LOBO loans of 4.7% to 4.75% are above PWLB rates making any opportunities to repay both unlikely and financially beneficial. Any LOBO called will be discussed with the Council’s treasury advisers prior to the acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.

4.11 The Council’s debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs. The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring, although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:

- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Align long term cash flow projections and debt levels
- Changing the maturity profile of the debt portfolio.

In the short term gains would accrue from replacing long term debt with shorter maturities, but from a longer term perspective this would not add value. Borrowing and rescheduling activity will be reported to Corporate Committee as part of the quarterly monitor reports.

4.12 The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

4.13 The Council's existing level of fixed interest rate exposure is 98% and variable rate exposure is 2%, however it is recommended that the limits in place for 2013/14 are maintained in future to retain flexibility. At present variable rates from the PWLB compare unfavourably with short term loans from local authorities due to the additional margin charged over gilts. If LOBO loans are treated as variable, the current variable allocation is 40%.

Table 10: Fixed and Variable Interest Rate Exposure

	2013/14 Approved %	2013/14 Actual %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	98	100	100	100
Upper Limit for Variable Interest Rate Exposure	40	2	40	40	40

4.14 The Council is required to set limits on the percentage of the portfolio maturing in each of the periods set out in the table below. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt. The limits have been set to reflect the current debt portfolio, and to allow enough flexibility to enable new borrowing to be taken for the optimum period. The limits apply to the combined General Fund and HRA debt pools.

Table 11: Maturity Structure of fixed rate borrowing

	Lower Limit	Upper Limit	31-Mar-14
	%	%	%
under 12 months	0%	40%	9%
12 months & within 24 months	0%	35%	2%
24 months & within 5 years	0%	35%	12%
5 years & within 10 years	0%	35%	15%
10 years & within 20 years	0%	35%	1%
20 years & within 30 years	0%	35%	7%
30 years & within 40 years	0%	35%	16%
40 years & within 50 years	0%	50%	15%
50 years & above	0%	50%	23%

5. Investment Policy and Strategy

5.1 Guidance from the Communities and Local Government Department (CLG) on Local Government Investments in England requires that an Annual Investment Strategy be set.

5.2 The Council's investment priorities are, in this order:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield that is commensurate with security and liquidity.

5.3 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Instruments proposed for the Council's use within its investment strategy are contained in Annex 4 and the list of proposed counterparties is shown in Annex 5. In keeping with the strategy of maintaining low investment balances while internally borrowing, it is proposed that all investments will have a maturity of less than one year during 2014/15. The Director of Corporate Resources, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Investment activity will be reported to Corporate Committee as part of the quarterly reports.

5.4 Economies and money markets have improved in the recent months although confidence remains fragile and markets are prone to over react to negative news. Stronger commitments to protect the Eurozone have helped to stabilise the European banking sector. Although this backdrop supports a return to a more diversified counterparty structure, the investment strategy has to be consistent with the borrowing strategy, which is to repay debt and maximise the use of internal resources. Thus investment balances are anticipated to be of relatively low value. Given this backdrop, it is proposed to continue to limit the proposed counterparty list to UK institutions, Money Market Funds and Enhanced Cash Funds. The latter is a new class of investments, more fully discussed in annex 5. No investments will have duration of more than 12 months and in practice durations of more than 3 months are unlikely.

5.5 With all investments the Council makes there is a risk of default, so the proposed list of investments is prepared to minimise this risk by being selective about the counterparties to be used. It is proposed to continue to apply a minimum long term credit rating of A-, which is described as “high credit quality” by the rating agencies.

5.6 The Council treasury advisor recommends maximum maturities for individual counterparties and these will be considered when investing for periods longer than overnight.

5.7 All counterparties on the list are subjected to continual monitoring, in conjunction with the Council’s treasury management advisers, to ensure that they continue to meet the high standard set. The range of information used to determine creditworthiness is:

- Credit ratings (long and short term and credit rating watches
- Credit Default Swaps (where quoted)
- Sovereign support mechanisms/potential support from a well-resourced parent institution
- Share prices
- Macro-economic indicators
- Corporate developments, news and articles, market sentiment.

5.8 If the monitoring reveals any concern about an institution’s creditworthiness, it will be removed from the lending list with immediate effect. In normal circumstances a credit rating downgrade below the minimum criteria will not result in existing term deposits being recalled prior to contractual maturity. In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office – either in the Debt Management Account Deposit Facility (DMADF) or UK Treasury Bills. (The rates of interest from the DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council’s capital is secure). Current conditions are not considered to be “significant stress”.

5.9 The Council currently has residual banking arrangements with Nat West, which is rated A-. Even if the credit rating of the Council’s bank falls below the minimum of A-, it is proposed that the bank will continue to be used for short term liquidity arrangements (overnight and weekend investments) and business continuity arrangements if other arrangements are not available.

5.10 In order to diversify the investment portfolio, investments will be placed with a range of approved investment counterparties. Maximum investment levels with each counterparty are set out in Annex 5 will ensure prudent diversification is achieved.

5.11 Money Market Funds (MMFs) and Enhanced Cash Funds (ECFs) provide good diversification of underlying counterparty but may themselves be subject to withdrawal restriction. The Council will therefore seek to diversify any exposure by utilising more than one MMF or ECF unless there are significant instant access funds from other sources. The Council will also restrict its exposure to MMFs and ECFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF or ECFs.

5.12 The Council is required to set an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. Given the current interest rate environment, the Council will not make investments for more than 364 days.

6. Use of Financial Instruments for the Management of Risks

6.1 The CIPFA Treasury Management Code of Practice requires the Council to state if and how it will use financial instruments, such as derivatives. Currently, local authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the Council does not intend to use derivatives. Should this position change, the Council may develop a detailed and robust risk management framework governing the use of derivatives, but such a change in strategy would require full Council approval.

7. Housing Revenue Account Self-financing

7.1 Central Government completed the reform of the Housing Revenue Account (HRA) Subsidy system at the end of 2011/12. Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government.

7.2 The Determinations do not set out a methodology for calculating the interest rate to use in each instance. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Treasury Management Code of Practice recommends that authorities present this policy in the annual Treasury Management Strategy Statement.

7.3 On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long term loans borrowed will be assigned in to one pool or the other. Interest payable and other costs/income arising from long term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account.

7.4 Differences between the value of the HRA loan pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured periodically and interest transferred between the General Fund and HRA at the net average rate earned by the Council on its portfolios of treasury investments and short term borrowing.

8. Outlook for Interest Rates

8.1 The interest rate forecast provided by the Council's treasury management adviser, Arlingclose Ltd, is attached at Annex 3. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

8.2 This interest rate forecast shows that UK base rate is forecast to remain at 0.5% until at least 2016. This would mean that short term rates remain significantly lower than long term rates throughout 2014/15 and beyond. As discussed in section 4, for this reason it is anticipated that cash balances will kept at a minimum throughout the financial year as the "cost of carry" will be significant for any borrowing taken before capital expenditure is incurred.

9. Balanced Budget Requirement

9.1 The Council complies with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget.

10. MRP Statement

10.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

10.2 The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

10.3 MRP in 2014/15: The guidance states Options 1 and 2 may be used only for capital expenditure originally incurred when government support was available. Methods of making prudent provision for self financed expenditure include Options 3 and 4. There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

10.4 It is a requirement for Council to approve the MRP statement before the start of the financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time.

10.5 It is proposed the Council will continue to apply Option 1 (charge 4% per annum over 25 years) in respect of capital expenditure originally incurred when government support was available and Option 3 (charge over the life of the asset) in respect of all other capital expenditure funded through borrowing. MRP in respect of leases and PFI (Private Finance Initiative) schemes brought onto the Balance Sheet under the IFRS (International Financial Reporting Standards) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

11. Other Issues

Monitoring & Reporting

11.1 Corporate Committee will receive quarterly reports on treasury management activity and performance. This will include monitoring of the prudential indicators.

11.2 It is a requirement of the Treasury Management Code of Practice that an outturn report on treasury activity is produced after the financial year end, no later than 30th September. This will be reported to Corporate Committee, shared with the Cabinet member for Finance & Carbon Reduction and then reported to full Council. Overview and Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

11.3 Officers monitor counterparties on a daily basis with advice from the Council's treasury management advisers to ensure that any creditworthiness concerns are addressed as soon as they arise. Senior management hold monthly meetings with the officers undertaking treasury management to monitor activity and to ensure all policies and procedures are being followed.

Training

11.4 CIPFA's Treasury Management Code of Practice requires the Director of Corporate Resources to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

11.5 Given the significant amounts of money involved, it is crucial members have the necessary knowledge to take treasury management decisions. Regular training sessions are arranged for members to keep their knowledge up to date.

Treasury Advisor

11.6 The CLG's Guidance on local government investments recommends that the Investment Strategy should state:
"Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and how the quality of any such service is controlled."

11.7 The Council has appointed Arlingclose Limited as their treasury advisor, to provide information and advice about the types of investment and borrowing the Council should undertake and the counterparties that should be used. Quarterly service review meetings take place to monitor the service and the appointment is formally reviewed in accordance with the Council's Contract Standing Orders.

ANNEX 3

Arlingclose's Economic and Interest Rate Forecast

	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15	Mar 16	Jun 16	Sep 16
Base Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3 month LIBID	0.45	0.45	0.50	0.55	0.55	0.55	0.55	0.60	0.65	0.70	0.80	0.90
1 year LIBID	0.90	0.95	0.95	0.95	1.00	1.05	1.10	1.15	1.20	1.25	1.30	1.40
5 yr gilt	1.45	1.50	1.55	1.60	1.65	1.70	1.75	1.85	1.95	2.10	2.30	2.50
10 yr gilt	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	3.00	3.10	3.30	3.50
20 yr gilt	3.25	3.30	3.35	3.40	3.45	3.50	3.55	3.65	3.75	3.85	4.05	4.15
50 yr gilt	3.45	3.50	3.55	3.60	3.65	3.70	3.75	3.80	3.85	3.95	4.05	4.15

Underlying assumptions:

- An improvement in consumer and business sentiment has seen Q1 and Q2 2013 GDP register 0.4% and 0.7%. Growth is likely to continue to strengthen with estimates for Q3 growth close to 1%. Consumer spending remains the key driver, although this may not be sustainable given the reduction in the savings ratio.
- The unemployment rate has fallen to 7.7%. The pace of decline in this measure will be dependent on a slower expansion of the workforce than the acceleration in the economy, alongside the extent of productivity.
- The CPI rate was 2.2% in October. Regulated and administered prices are likely to keep CPI above target in the near term. In the medium term inflation is expected to come back towards the target 2%.
- The principal measure in the MPC's Forward Guidance on interest rates is the Labour Force Survey (LFS) unemployment rate. The MPC intends not to raise the Bank Rate from its current level of 0.5% at least until this rate has fallen to a threshold of 7%. It currently forecasts this level to emerge in Q3/2016.
- With improving growth statistics, the appetite for further Quantitative Easing (QE) is likely to remain small.
- House price inflation is likely to rise due to the government's Help to buy scheme, where it will guarantee up to 15% of purchasers' 95% mortgages. This could lead to a housing bubble, which in turn could come under pressure if rates were to rise quickly.
- Federal Reserve monetary policy expectations - the slowing in the pace of asset purchases ('tapering') and the end of further asset purchases - will remain predominant drivers of the financial markets. The Fed did not taper in September and has talked down potential tapering in the near term and it now looks more likely to occur in early 2014.

- The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over longevity of their coalitions). The ECB has discussed a third LTRO, as credit conditions remain challenging for European banks.
- The US economic recovery appears to remain on course, but the unresolved political deadlock over the debt ceiling represents a risk to activity.
- China data has seen an improvement, easing markets fears.
- On-going regulatory reform and a focus on bail-in debt restructuring is likely to prolong banking sector deleveraging and maintain the corporate credit bottleneck.
- Geopolitical tensions, notably surrounding Syria, make for a less than conducive backdrop while global economies remain fragile.
- Our projected path for short term interest rates remains flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, upside risks now weight more heavily at the end of our forecast horizon.
- We continue to project gilt yields on an upward path through the medium term. The recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US. Yields are slowly drifting lower after the Fed stated that tapering was not going to occur, but volatility will continue.

ANNEX 4

Counterparty Policy

The investment instruments identified for use in 2014-15 are listed below under the ‘Specified’ and ‘Non – Specified’ investment categories. Specified investments are considered low risk and relate to funds invested for up to one year. Non-specified investments normally offer the prospect of higher returns but carry higher risk and may have a maturity beyond one year. All investments are sterling denominated.

Specified Investments

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limits £m	Maximum period of investment
Term Deposits	UK	Debt Management Account Deposit Facility (DMADF), Debt Management Office (DMO)	No limit	364 days
Gilts	UK	Debt Management Office (DMO)	No limit	364 days
Treasury Bills	UK	Debt Management Office (DMO)	No limit	364 days
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£30m per local authority	364 days
Term Deposits/ Call Accounts/ Certificates of Deposit	UK or AAA	Counterparties rated at least AA- Long Term (or equivalent)	£20m per bank or banking group	364 days
Constant Net Asset Value Money Market Funds (MMFs)	UK/Ireland/Luxembourg domiciled	AAA-rated Money Market Funds	£20m per MMF*; Group limit £100m	Instant Access

Investments do not include capital expenditure as defined 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). Investment in gilts would only be undertaken on advice from the Council’s treasury management adviser.

For credit rated counterparties, the minimum criteria will be the lowest equivalent long-term ratings assigned by Fitch, Moody’s and Standard & Poor’s (where assigned).

Long-term minimum: A- (Fitch); A3 (Moody's); A- (S&P)

The Council will also take into account the range of information on investment counterparties detailed in section 5.7.

The limits stated will apply across the total portfolio operated by the Council and so incorporate both Council and Pension Fund specific investments.

The limits for the period of investment are the maximum for the categories of counterparties. Lower operational limits will apply if recommended following a review of creditworthiness.

* Limit per MMF to be no more than 0.5% of the Money Market Fund's total assets.

Non- Specified Investments

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limits £m	Maximum period of investment
Gilts	UK	Debt Management Office (DMO)	£10 million	36 Months
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£30m per local authority	36 Months
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Counterparties rated at least A- Long Term (or equivalent) and NatWest Bank.	£20m per bank or banking group	364 days
Variable NAV Enhanced Cash Funds	UK/Ireland/Luxembourg domiciled	AAA - rated Funds	£5m per ECF*; Group limit £15m	Minimum Weekly Redemption

Non specified investments generally have either longer maturities than one year or weaker credit ratings than AA-, but not both.

Enhanced Cash Funds

The potential investment universe is wide and there are many types that Haringey does not currently utilise. One category that we would like to introduce into the portfolio is enhanced cash funds (also known as short dated bond funds). These share many of the characteristics of money market funds, which are already in use:

a) Stand alone fund, mainly a Dublin plc, that invests in bank and corporate bonds, bank deposits and other financial instruments.
b) An appointed fund manager determines which investments to hold.
c) Investment is through the purchase of units.
d) Most have an AAA credit rating.

The key difference between money market funds (MMF) and enhanced cash funds (ECF) is the latter are permitted longer maximum average maturities. A rated MMF has a maximum weighted average maturity (WAM) of 60 days, while ECF typically have 360 days WAMs and some longer. This allows them to generate a higher return from buying longer dated securities. As a consequence of the longer WAM, there are a number of differences between MMF and ECF:

a) The value of investments in ECF can vary being based on the underlying value of the investments. In a MMF, any change in value is relatively small and is reflected in the declared income.
b) MMF are dealt daily with cash moving in and out on trade date. With ECF the notice and settlement period can be up to 5 days and the funds are not suitable for intra day liquidity.
c) ECF employ a wider range of instruments and some use derivatives.

ECFs are attractive in that they offer a higher return than MMF and compared with direct investments in bonds offer high levels of diversity while maintaining an overall high quality credit exposure.

As mentioned above, most ECF have a credit rating, usually AAA. There is also a separate volatility rating that measures the sensitivity of the value of the fund to changes in interest rates. When market interest rates increase, the impact on the value of longer term investments is higher than short term investments. Despite the longer WAM, many have the lowest volatility ratings because they have strict policies on selling investments when prices change.

The attraction of ECF is the higher returns. MMF generally have net returns at present of between 0.3% and 0.5%, where as an ECF with a WAM of 360 days is currently in the range 0.75% to 1.25%.

The use of such funds has been discussed with the Council's treasury advisor who are supportive provided the exposure is limited to 20-25% of the total deposits and we invest with higher security / lower volatility funds. We will avoid funds that use derivatives as the legality of these for local authorities is unclear. Implementation will involve both a switch from MMF and DMO deposits. A maximum of £5 million invested with a single fund is proposed.

ANNEX 5

Lending List of counterparties for investments

This is the proposed list of counterparties which the Council can lend to, providing the counterparties meet the requirements set out in Annex 4 at the time of investment. The list will be kept under constant review and counterparties removed if the process described in 5.7 and 5.8 raises any concerns about their credit worthiness.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m
Gilts, Treasury Bills, Term Deposits	UK	Debt Management Office (Term deposits with Debt Management Account Deposit Facility DMADF)	No limit
Term Deposits	UK	Other Local Authorities	£30m per local authority
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Barclays Bank Plc	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	HSBC Bank Plc	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Lloyds Banking Group including Lloyds TSB and Bank of Scotland	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Nationwide Building Society	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	RBS Group including Nat West Bank and Royal Bank of Scotland	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Standard Chartered Bank	20

The counterparty list excludes MMF and ECF's as the name of the fund reflects the fund manager not the quality of the underlying holdings. Selection of MMFs and ECFs will be based on the criteria set of in Annex 4. The limit for any single MMF is £20 million and each ECF is £5 million.

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Haringey Council

Report for:	Corporate Committee 26 November 2013	Item number	

Title:	Internal Audit Progress Report – 2013/14 Quarter 2

Report authorised by :	Director of Corporate Resources J. Parker 18/11/13 Assistant Chief Executive Stuart Young 18/11/13

Lead Officer:	Anne Woods, Head of Audit and Risk Management Tel: 020 8489 5973 Email: anne.woods@haringey.gov.uk

Ward(s) affected: ALL	Report for: Non-Key Decision

1. Describe the issue under consideration

1.1 The Corporate Committee is responsible for monitoring the completion of the annual internal audit plan and the implementation of agreed recommendations as part of its Terms of Reference. In order to facilitate this, progress reports are provided on a quarterly basis for review and consideration by the Corporate Committee on the work undertaken by the Internal Audit Service in completing the 2013/14 annual audit plan, together with the responsive pro-active fraud investigation work, and housing benefit fraud investigation work. Where further action is required or recommended, this is highlighted in the report and appendices and included in the recommendations for the Corporate Committee.

1.2 The report also provides information from the Council's Human Resources (HR) business unit in respect of (a) work undertaken in supporting disciplinary action taken across all departments by respective Council managers; and (b) consultants employed by the Council.

1.3 The Department for Work and Pensions (DWP) have stated that they intend to introduce their proposed Single Fraud Investigation Service (SFIS) as a single, DWP-led, investigation service. A summary of the implications of this

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for local authorities and the potential impact on Haringey is included as a separate appendix to this report.

2. Cabinet Member Introduction

2.1 Not applicable

3. Recommendations

3.1 The Corporate Committee is recommended to note the audit coverage and counter-fraud work completed; and the actions taken during the quarter to ensure audit recommendations are implemented and address the outstanding recommendations during the second quarter, 2013/14.

3.2 The Corporate Committee notes the information received from the HR business unit.

3.3 The Corporate Committee agrees the Council's proposed actions, set out in Appendix E, in response to the DWP's statements on how SFIS will operate.

4. Other options considered

4.1 Not applicable.

5. Background information

5.1The internal audit service and counter-fraud teams make a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council. This report looks at the work undertaken in the quarter ending 30 September 2013 and focuses on:

- Progress by Deloitte and Touche on internal audit coverage relative to the approved internal audit plan, including the number of audit reports issued and finalised;
- Progress in implementing outstanding internal audit recommendations with particular attention given to priority 1 recommendations;
- Details of pro-active and reactive investigative work undertaken relating to fraud and/or irregularities, including those within the remit of the Corporate Anti-Fraud and Housing Benefit Fraud Investigation Teams;
- Details of the work completed to review and investigate the potential data matches received as part of the Audit Commission's statutory National Fraud Initiative (NFI) exercise;
- Information in respect of disciplinary action taken by managers across all departments of the Council during the quarter; and
- Details of consultants employed by all departments across the Council to the end of September 2013.

5.2 The information in this report has been complied from information held within the Audit & Risk Management business unit and from records held by Deloitte and Touche and the Council's corporate HR business unit.

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6. Comments of the Chief Financial Officer and Financial Implications

6.1 There are no direct financial implications arising from this report. The work completed by Deloitte and Touche is part of the framework contract which was awarded to the London Borough of Croydon from 1 April 2012, in accordance with EU regulations. The costs of this contract are contained and managed within the Audit and Risk Management revenue budget.

6.2 The financial benefits to the Council of the work completed during 2013/14 as part of the ongoing tenancy fraud project will be realised as properties are recovered and returned to the Council's portfolio. The Audit Commission estimate that the costs of fraudulent tenancies and unauthorised sub-letting equate to £18k per annum per property, mainly relating to additional costs for temporary accommodation. During the second quarter, seventeen Council properties were recovered, equivalent to a cost saving to the Council of £288k.

6.3 The financial benefits reported as part of the NFI exercise for blue badges and concessionary passes are based on the Audit Commission's assessment of the monetary value of £500 for each blue badge or concessionary pass. To date, the team's work to cancel 361 badges and passes where the recipient is deceased or no longer entitled to use it equates to a value of £180.5k.

6.4 Although the DWP's proposals for SFIS have not been finalised, there could be financial implications for the Council if certain types of benefits can no longer be investigated as the costs of any fraud could be borne by the Council. This should be kept under review as the proposals for SFIS are developed and implemented during 2014/15.

7. Legal Implications

7.1 The Head of Legal Services has been consulted in the preparation of this report, and save for endorsing the comments of the Chief Financial Officer at paragraph 6.4, advises that there are no direct implications arising out of the report.

8. Equalities and Community Cohesion Comments

8.1 This report deals with how risks to service delivery are managed across all areas of the Council, which have an impact on various parts of the community. The report also contains details of how fraud investigation work is undertaken and pro-active fraud projects are managed. Improvements in managing risks and controls will therefore improve services the Council provides to all sections of the community.

9. Head of Procurement Comments

9.1 Not applicable.

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10. Policy Implications

10.1 There are no direct implications for the Council's existing policies, priorities and strategies. However, improving controls and reducing the opportunity for fraud to take place in the first place, and taking appropriate pro-active action to detect and investigate identified fraud will assist the Council to use its available resources more effectively.

11. Use of Appendices

11.1 Appendix A – Deloitte and Touche Progress report
Appendix B – In-house Team – investigations into financial irregularities
Appendix C – Council-wide disciplinary information
Appendix D – Consultants employed by the Council as at 30 September 2013.
Appendix E – SFIS and the implications for local authority fraud investigations
Appendix F – Template letter

12. Performance Management Information

12.1 Although there are no national or Best Value Performance Indicators, key local performance targets have been agreed for Audit and Risk Management. These form part of Corporate Resources' reporting processes, but are detailed below for information. Table 1 below shows the targets for each key area monitored and gives a breakdown between the quarterly and cumulative performance.

Table 1

PI Ref.	Performance Indicator	2nd Quarter	Year to date	Target
1	Audit work – Days Completed vs. Planned programme	99.5%	52.3%	95%
2	Priority 1 recommendations implemented at follow up	100%	100%	95%
3	Benefit fraud cases completed and accepted for prosecution	12	19	30
4	Benefit overpayments recovered (including POCA and confiscation awards)	£0.3k	£4.2k	£150k

13. Internal Audit work – Deloitte and Touche contract

13.1 The activity of Deloitte and Touche for the second quarter of 2013/14 to date is detailed at Appendix A. Deloitte and Touche planned to deliver 225 days of the 2013/14 annual audit plan (900 days) during the quarter and actually delivered 224 days audit work during the quarter. There are no issues identified at this stage to prevent the annual target from being met. Ongoing monthly contract monitoring reviews ensure that performance levels are kept under review.

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13.2 Members of the Corporate Committee receive detailed summaries of all projects for which a final report has been issued on a monthly basis to allow for any issues to be considered in a timely manner. Appendix A provides a list of all final reports which have been issued during the quarter, together with detailed summaries of the findings and recommendations of those reports which received a 'limited' assurance rating.

13.3 Appendix A also provides detailed summaries of all recommendations which were previously recorded as outstanding at the time of the follow up audit work. Members have been monitoring the progress and implementation of these to ensure that managers were taking appropriate action to address outstanding recommendations. Four recommendations from 2011/12 remain outstanding, with only one high priority recommendation remaining as 'partly implemented'. Work is ongoing to address the recommendations and Internal Audit are satisfied that managers' actions to date are appropriate and cost effective to manage the lower priority risks facing the Council. Internal Audit will continue to monitor implementation of recommendations to ensure appropriate actions are taken to mitigate identified risks.

13.4 A summary of all follow up audits for 2012/13 work which have been undertaken is also included at Appendix A. We have followed up on 39 recommendations to date and found that 38 have been implemented and 1 is in progress. No Priority 1 recommendations remain outstanding. Overall, a compliance rate of 97% has been achieved for the second quarter.

14. In-house Team: Fraud investigation/Pro-active work

14.1 In accordance with the Council's Constitution, Internal Audit investigates all cases that fall outside the remit of the Housing Benefit Fraud Investigation Team and the Council's Information Security Policy. Appendix B details the individual cases that were completed by the In-house Team in the second quarter of 2013/14 relating to Council employees. The listing at Appendix B also includes any referrals made using the Council's whistle blowing policy which were investigated by Internal Audit. During the second quarter, no staff-related whistle blowing referrals were made.

14.2 Within the second quarter, four new cases relating to permanent and temporary employees were referred to Internal Audit by management. One case was completed during the quarter involving a Council employee. Internal Audit work closely with officers from personnel and the service involved to ensure that the investigation is completed as quickly as possible.

14.3 The section has been continuing to work with Homes for Haringey and the Strategic and Community Housing Service to target and investigate housing and tenancy fraud. The Audit Commission estimate that each fraudulent

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tenancy costs councils an estimated £18k in temporary accommodation and other associated costs.

14.4 As at 30 September 2013, 81 new referrals of suspected tenancy fraud have been received by the team during 2013/14. Together with 57 cases brought forward from 2012/13, this gives a current total of 139 referrals (148 received in total during 2012/13) and Table 2 below summarises the source of these referrals:

Table 2

Referrals Received From:	Number
Tenancy Management Officer	47
Fraudcall (email and freephone telephone)	14
Registered Providers	59
Members of the Public	3
Joint investigation with Housing Benefit Fraud	0
National Fraud Initiative	1
Police	0
Other Local Authority	1
Member	0
Haringey Staff	13
Home Office	1
Total	**139**

14.5 During the second quarter of 2013/14, eighteen Haringey properties have been recovered in total, plus six applications for Succession, or Grant of Tenancy, refused on evidence of ineligibility, so the tenancies can be allocated to tenants in accordance with the Council's lettings policy.

14.6 The section also works closely with the Council's key Registered Providers to target and investigate housing and tenancy fraud in joint working with Registered Provider staff. As at 30 September 2013, 30 new referrals of suspected tenancy fraud have been received and together with 29 cases brought forward from 2012/13, this gives a current total of 59 referrals to date.

14.7 As a result of the joint working, ten Registered Providers' properties have been recovered in the first quarter. Investigations have been closed in five cases with no fraud identified and are ongoing in 44 cases.

15. Housing Benefit Fraud Investigation

15.1 During the second quarter, the HB Fraud team completed investigations on thirteen benefit fraud cases and submitted these for prosecution at crown court via Legal Services, giving a total of twenty cases submitted in the year to date. Four cases submitted by the team to the DWP for joint prosecutions in 2011/12 are still to be heard. There are also seven cases with outstanding warrants which the team chase up on a regular basis.

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15.2 The team achieved six successful prosecutions during the quarter and eleven to date, with a total overpayment value of £271.2k, although only £4.2k has been recovered to date. The team has an annual target of 30 prosecution cases for 2013/14, and this target is expected to be achieved.

16. National Fraud Initiative

16.1 The National Fraud Initiative (NFI) is a statutory biennial data matching exercise which is managed by the Audit Commission. Data from all local authorities and many other public sector organisations is matched to identify potential fraud. The resulting data matches are shared, via a secure website, to the Council to enable further investigations to take place. The initial data matches were made available to the Council in February 2013, although further results have been added in during the year. Work on the data matches began in March 2013. The NFI investigations run alongside and support the teams' existing pro-active and reactive counter-fraud work programmes.

16.2 During the second quarter, the Corporate Anti-Fraud and Housing Benefit Investigation teams have been continuing their investigations into the potential data matches provided by NFI. Work has been undertaken to investigate: payroll and pension payments, blue badges, housing benefits, right to buy, insurance claimants and housing tenants.

16.3 The Audit Commission identifies the total number of potential data matches for each area. Within this total, the Audit Commission further highlights a number of 'recommended' matches, within the total number of matches, which they consider to have the highest risk of potential fraud linked to them. The teams have focused on completing their investigations into the 'recommended' matches during the year to date, and has selected a further sample from the total matches for each area for investigation on a risk basis.

16.4 The Audit Commission visited Haringey Council on 27 September 2013 to review progress and discuss the Council's outcomes and approach to the NFI exercise to date. The Audit Commission reported that the council had made good progress on completing investigations on data matches and their comments will be reported to the Council's external auditors. Grant Thornton also review progress against NFI matches and discuss any potential issues with the Head of Audit & Risk Management throughout the year. No issues have been raised to date.

16.5 A summary of the NFI matches is detailed in Table 3 below. Further comments on some areas are also included below the table.

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NFI area	Total Number of Matches identified	Total 'Recommended' Matches identified	Total number of investigations completed to date	Number of ongoing Investigations
Housing Benefits	8,282	2,001	1,975	889
Payroll	203	96	127	15
Pensions	208	61	166	3
Housing Tenants	353	141	80	31
Right to Buy	126	125	93	28
Insurance claimants	29	13	29	0
Blue badge permits	435	348	355	0
Concessionary Travel Passes**	1,066	1,066	270	796

** Data matches received from Audit Commission August 2013

16.6 **Housing Benefits.**

The Housing Benefit Fraud Investigation Team has identified:

- Housing benefits to payroll data, where the individual is employed by Haringey: eight frauds and 14 errors with a total benefit value of £151.7k. The identified frauds have used both internal disciplinary processes and criminal prosecutions proceedings;
- Housing benefits to payroll data, where the individual is employed by another organisation: two frauds and three errors with a total benefit value of £19.2k. Prosecution cases are being compiled in the two fraud cases;
- Housing benefits to pensions data, where the individual is receiving a pension from Haringey or another organisation: no frauds, but 18 errors have been identified and are being followed up; and
- Housing benefits to student loans: one fraud with a value of £1.7k has been identified. The DWP are leading on this area and will undertake proceedings.

16.7 **Payroll.**

All recommended matches have been investigated and no fraud or errors have been identified. Further investigations on 15 cases are ongoing.

16.8 Pensions.

All recommended matches have been investigated and two frauds and no errors have been identified. The estimated value of the frauds is £20.5k and follow up work is ongoing on these cases. Further investigations on 3 cases are ongoing.

Haringey Council

16.9 Right to Buy.
All recommended matches are being investigated and fraud or errors that have been identified are being followed up. Further investigations are ongoing.

16.10 Insurance claimants
All potential matches have been investigated. No fraud or errors were found.

16.11 Blue badges/Concessionary Travel Passes
The team collected 9 blue badges and cancelled 341 badges in total where the user was either deceased or no longer entitled to use the badge. Concessionary Travel Pass matches were released to the Council in August 2013, and to date a further 270 passes have been cancelled as a result of the team's investigations.

17. Council-wide disciplinary statistics

17.1 Appendix C details the number of disciplinary suspensions and/or action taken in the second quarter of 2013/14. The data is taken from SAP and the information has been provided by the HR business unit in line with Council statistics reported elsewhere.

17.2 During the quarter, the number of disciplinary cases investigated was 32, with 18 remaining 'open' at the end of the quarter. The average length of time taken to resolve disciplinary cases in the quarter was 78 days, which is a slight decrease on the previous quarter. Internal Audit has not completed any further verification on the information provided by HR for this appendix.

18. Consultants information

18.1 Appendix D details the consultants employed by the Council during the second quarter. The data is taken from SAP and the information has been provided by the HR business unit. Internal Audit has not completed any further verification on the information provided by HR for this appendix.

Internal Audit
Quarter 2 Internal Audit Report
2013/14
London Borough of Haringey

Deloitte & Touche Public Sector Internal Audit Ltd.
October 2013

DELOITTE INTERNAL AUDIT - QUARTERLY AUDIT REPORT 2013/14

APPENDIX A

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APPENDIX A

Executive Summary

Introduction

This is our second quarter report to the Corporate Committee for the 2013/14 financial year including details of all reports which are now at final stage. The report provides information on those areas which have achieved full or substantial assurance and gives an indication of the direction of travel for key systems work which will provide Members with information on how risks are being managed over time. The format of this report is also designed to highlight the key risks facing individual departments and the Council which have been identified during the course of our internal audits. A more detailed summary of the limited assurance audit findings is included for information. The report draws together the summary information which is provided on a monthly basis to Members of the Corporate Committee. Members of the Committee will also be provided with full copies of our audit reports upon request.

All recommendations are agreed with Council officers, and any disputes are discussed prior to the final report being issued. All recommendations to address any control weaknesses highlighted within this report have been agreed. Officers' actions to address the recommendations, including the responsible officer and the deadline for completion, are fully detailed in the individual final audit reports.

The attached tables reflect the status of the systems at the time of the audit, and recommendations may already have been implemented by Council officers by the time the final report is issued and reported to the Corporate Committee.

As a reminder, our recommendations are prioritised according to the following categories:

Priority 1 - major issues for the attention of senior management
Priority 2 - other recommendations for local management action
Priority 3 - minor matters and/or best practice recommendations

Key Highlights/Summary of Quarter 2 2013/14 – Final Reports issued:

2012/13 Internal Audits finalised in the quarter:

- Accounts Payable (Creditors);
- Transfer Processes - Academies;
- Continuous Assurance – Budget Virements;
- Continuous Assurance – Payroll;
- Corporate Savings Programme;
- Mayoral Community Infrastructure Levy; and
- Direct payments

2013/14 Internal Audits finalised in the quarter:

- Accounts Payable (Creditors);
- Transfer Processes - Academies;
- Continuous Assurance – Budget Virements;
- Continuous Assurance – Payroll;
- Corporate Savings Programme;
- Mayoral Community Infrastructure Levy; and
- Direct payments

Delivery of 2012/13 Internal Audit Plan

As part of the delivery of the 2012/13 Internal Audit Plan, we have also issued draft reports for the following audits:

- Framework-I Application;
- SAP Application;
- Authority ICON Application;
- Schools Licensed Deficit Arrangements;
- Procurement – Purchase Cards;
- Alternative Education Provision;
- Member Services;
- Procurement – Facilities Management; and
- Residential and Community Care Charges.

Delivery of 2013/14 Internal Audit Plan

As part of the delivery of the 2013/14 Internal Audit Plan, we have also issued draft reports for the following audits:

- Temporary Accommodation;
- Woodside Children's Centre;
- Pan London Prescription (Minor Equipment) Service;
- Pan London (Major Equipment) Service; and
- Data Quality.

Follow Up of Prior Years' Recommendations

The results of our follow-up work are as follows:

2011/12
Four recommendations remain outstanding; work is ongoing to address these.

2012/13
To date we have followed up 39 recommendations raised in 2012/13 and the results of our work are as follows:

- Implemented – 38 (97.4%);
- In Progress or partly implemented – 1 (2.6%);

As part of the 2013/14 Internal Audit Plan, we will continue to complete a follow-up of the 2012/13 recommendations throughout the financial year. The findings will be reported in our quarterly report to the Corporate Committee.

Audit Progress and Detailed Summaries

The following table sets out the audits finalised in Quarter 1 of 2013/14 financial year and the status of the systems at the time of the audit. It must be noted that the recommendations may already have been implemented by Council officers by the time the final report is issued and reported to the Corporate Committee.

Detailed summaries of all audits which do not receive 'Full' or 'Substantial' assurance ratings are also provided for Members' information.

Audit Title	Date of audit	Date of Final Report	Assurance Level	Direction of Travel	Number of Recommendations (Priority)		
					1	2	3
2012/13							
Accounts Payable (Creditors)	January 2013	10/07/13	Substantial	⇔	0	3	1
Transfer Processes – Academies	November 2012	29/07/13	Limited	N/A	1	3	0
Continuous Auditing - Payroll	April 2013	22/08/13	Substantial	N/A	0	1	0
Corporate Savings Programme	June 2013	29/08/13	Substantial	⇔	0	4	0
Continuous Auditing – Budget Virements	April 2013	29/08/13	Substantial	N/A	0	3	0
Mayoral Community Infrastructure Levy	May 2013	06/09/13	Limited	N/A	2	3	0
Direct payments	Feb-July 2013	30/09/13	Substantial	N/A	0	4	0
2013/14							
Framework-I Application	May 2013	22/07/13	Substantial	N/A	0	1	3
SAP Application	June 2013	22/07/13	Substantial	N/A	0	3	0
Authority ICON Application	June 2013	29/07/13	Substantial	N/A	0	4	2
Schools Licensed Deficit Arrangements	June 2013	22/08/13	Substantial	N/A	0	2	0
Procurement – Purchase Cards	July 2013	04/09/13	Substantial	N/A	0	1	0
Alternative Education Provision	May 2013	04/09/13	Limited	N/A	1	3	0

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Audit Title	Date of audit	Date of Final Report	Assurance Level	Direction of Travel	Number of Recommendations (Priority)		
					1	2	3
Member Services	June 2013	26/09/13	Substantial	N/A	0	1	3
Procurement – Facilities Management	May 2013	30/09/13	Substantial	N/A	0	7	0
Residential and Community Care Charges	June 2013	30/09/13	Substantial	N/A	0	2	1

As part of the 2012/13 Internal Audit Plan we have visited the following schools, completed a probity audit and during Quarter 2 issued a final report.

School	Date of Audit	Report Date	Assurance Level	Number of Recommendations (Priority)		
				1	2	3
2013/14						
Blanche Nevile Special School	May 2013	10/07/13	Limited	5	4	1
West Green Primary School	July 2013	03/09/13	Limited	3	4	0
Welbourne Primary School	July 2013	26/09/13	Substantial	1	10	1

As part of the 2013/14 Internal Audit Plan we have visited the following schools during Quarter 2 and completed a probity audit, for which a draft report has been issued.

- Alexandra Primary School;
- Earlham Primary School;
- Ferry Lane Primary School;
- Stamford Hill Primary School;
- Stroud Green Primary School; and
- Tiverton Primary School.

Audit area	Scope	Status/key findings	Assurance
		PLACE & SUSTAINABILITY	

Mayoral Community Infrastructure Levy 2012/13	Audit work was undertaken to cover the following areas:
	• Compliance with national and local requirements;
	• Mayoral CIL;
	• Allocation; and
	• Monitoring and review.
		Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
		The key findings are as follows:
		• Community Infrastructure Levy (CIL) Statutory Instrument provides guidance on the procedures for collecting the levy and training is also provided to relevant staff. Discussion with planning officers, however, established that the procedures are not clearly understood. In addition, discussion with the Head of Business Development and Technical Support established that although clarifications are provided and agreed at the TFL CIL implementation group, these may not be effectively communicated back to all relevant staff;
		• Examination of 10 CIL liability cases established that:
		  ◦ In one case, it was unclear whether the CIL was accurately calculated as the drawing plans did not clearly identify the new area developed;
		  ◦ In one case, the amount calculated of £22,325 was incorrectly recorded in the Officer's Report as £22,235; and
		  ◦ In one case, the gross external area was used for the calculation instead of the gross internal area leading to an overcharge of £350 (10 m2*£35);
		• An inconsistent approach was adopted by the different planning officers, whereby some officers used the Council calculations and other officers used the calculations provided by the applicant;
		• There was no evidence that the calculations are checked and independently verified by a Team Leader or a Manager. It is acknowledged that the Team Leader would look at the calculation when reviewing the Officer's Report or Planning Sub-Committee Report. A CIL calculation sheet has been developed but this was not completed and signed off in all 10 cases sampled; and
		• Supporting data for management information is inaccurate.
			Limited

Audit area	Scope	Status/key findings	Assurance
		As a result of our audit work we have raised two Priority 1 and three Priority 2 recommendations, which should assist in improving the control environment. The Priority 1 recommendations are as follows: • The exceptions identified as a result of our sample testing of 10 Mayoral CIL applications should be investigated and rectified. Managers should identify the reasons for the errors found and should follow these up with the relevant individual planning officers. • A consistent approach to calculating CIL should be agreed and communicated to all staff. If it is decided to use the applicant data, a variance threshold should be set and communicated to all planning officers. Management should periodically check that the approach is used consistently by all planning officers. The Priority 2 recommendations are as follows: • The clarifications and agreed approach discussed at the TFL CIL implementation group should be regularly communicated back to all relevant staff through a formal and consistent process. Consideration should also be given to revising the training strategy to ensure that procedures are effectively explained and understood. • Management should implement a process for the CIL calculations to be independently checked by a second officer and confirmed as being complete and accurate. This could be completed by signing off the CIL calculator sheets which should be used in all cases. • Monitoring reports for management should be scrutinised to ensure that the supporting data is valid and accurate. Assurances regarding the accuracy of management reports can be provided by the Head of Service or the Assistant Director.	

Audit area	Scope	Status/key findings	Assurance
		CHILDREN & YOUNG PEOPLE'S SERVICE	
Transfer Processes - Academies 2012/13	Audit work was undertaken to cover the following areas: • Governance arrangements; • Asset management; • Expenditure and payments; • Monitoring, review and reporting arrangements; and • Compliance with statutory requirements.	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The introduction of the Academies Act 2010 resulted in six Haringey schools obtaining to academy status which are: • Woodside High and Alexandra Park Secondary Schools at the instigation of the School; and • Downhills, Nightingale, Coleraine Park, and Noel Park Primary Schools at the instigation of the Secretary of State. Some Academies, generally those set up to replace underperforming schools, will have a sponsor whose vision and leadership are vital to each project. The Council plans to work with the sponsors of these schools. Academies receive their funding directly from the Education Funding Agency (EFA). Although many of the services provided by the Council ceases upon the Schools becoming Academies, the Academies may buy into services under a service level agreement with the Council. There is no statutory requirement for any formal relationship between the Council and Academies beyond that which is required for the delivery of the Local Authority's (LA) statutory duties such as the making and reviewing of special educational needs (SEN) statements and securing sufficient education in an area and provision of home-to-school transport for eligible children. The Academies Act allows for the LA to request that one LA governor is included within the governance structure for an Academy. The key findings are as follows: • Standard documentation has been produced by the Department for Education (DfE) for the Academy conversion process. This includes a Funding Agreement and a 125 year Lease and Commercial Transfer Agreement (CTA); • The Funding Agreement for each Academy is between the DfE and the relevant Academy Trust. As the Council is not a party to this agreement, a copy of the agreement was not held by the Council for the two Academies examined (Alexandra Park Secondary and Noel	**Limited**

Audit area	Scope	Status/key findings	Assurance
		Park Primary); • Annex B and C of the Funding Agreement require compliance with the Schools Admissions Code and compliance with respect to children with Special Educational Needs. As these could not be provided, we are unable to confirm that these are satisfactorily covered; • While there was a Project Steering Group for the Noel Park Primary conversion, there was no formal group established for the Alexandra Park Secondary conversion, and it was noted that minutes were available for only one meeting of the Noel Park Primary Project Steering Group; • The membership of the Haringey Schools Forum has been kept under review and has been amended to include Academy representation. Originally in September 2011, this was the Grieg City Academy, but current Academy representation is the Grieg City Academy and Alexandra Park Secondary; • The School's premises were leased to the Academy Trust on a 125 year lease with the premises identified through the inclusion of a map. It was noted that the former Caretaker's House for Noel Park Primary School was specifically excluded; • While it was noted that the maintained school bank accounts for Alexandra Park Secondary and Noel Park Primary Schools had been closed, the account for Alexandra Park School was closed in December 2012, subsequent to the September 2012 conversion date; • Schedule 3 of the Commercial Transfer Agreement (CTA) specifies the assets held by the School on site on the conversion date to be transferred to the Academy, excluding the freehold title of the land; • Schedule 2 of the CTA specifies the contracts to be transferred to the Academy. While Alexandra Park Secondary detailed individual contracts, the Noel Park Primary CTA only specified contracts in place at the date of conversion; • Schedule 1 of the CTA specifies the staffing information requirements to transfer while Schedule 5 specifies the detail of staff to transfer. It was noted that the Noel Park Primary School CTA did not specify the	

Audit area	Scope	Status/key findings	Assurance
		individual staff that will be transferred; • There is a Private Finance Initiative (PFI) agreement covering Secondary Schools. While the DfE issued a letter that they have at present no plans to review payments to LAs in respect of PFI contracts, should a decision be made, they will only agree to convene a meeting to discuss how such a shortfall would be met. Assurance and an indemnity were requested by the Lead Finance Officer but none was received. Corporate Finance is aware of the risk but it would be incorrect to propose a provision in the accounts as it is not possible to identify an amount with any certainty. It also is by no means certain that the Government will withdraw funding; on that basis a contingent liability is also not appropriate; • It was noted as a requirement that the Localism Act 2011 requires LA to maintain a register of community assets, and allows community groups a right to submit a bid for the use of such assets in the event that they are to be sold. In the event that a school is to transfer to an Academy, this would be a community asset and could trigger a bid by a community group; • It was stated that School Improvement Meetings review performance at all schools, covering all aspects of the school. This will in the future cover the Academies. However, minutes of such meetings have not been provided; • It was stated that the Deputy Director (Prevention and Early Intervention) holds regular update meetings with the Academy Trusts to resolve any issues between the Trust and Council. Confirmation of these meetings was requested but no records have been provided to date; and • Annex B and C of the DfE model Funding Agreement require compliance with the Schools Admissions Code and compliance with respect to children with Special Educational Needs. As these could not be provided, we are unable to confirm that these are satisfactorily covered. As a result of our audit work we have raised one Priority 1 and three	

Audit area	Scope	Status/key findings	Assurance
		Priority 2 recommendations, which should assist in improving the control environment. The Priority 1 recommendation is as follows: • The Council should request a copy of the agreed Funding Agreement between the DfE and each Academy Trust and review to confirm that it follows the model version included in the Schedules. The Priority 2 recommendations are as follows: • A formal Project Group should be established to manage the process of transfer of a school from maintained to Academy status. The Project Group should meet (at least) once every month. The group should develop a Project Plan to identify all tasks to be completed for a satisfactory Academy transfer, with responsibility for each task appropriately assigned; • The closure of maintained school bank accounts should be completed before conversion of the School to an Academy. Documentation should be obtained and retained to confirm that the account has been satisfactorily closed. Responsibility for closure should be clearly assigned within a Project Plan; and • The CTA Schedule should define all staff by name, position, age, years' service, grade, and pension status, that exists at the School and are to be transferred.	
Alternative Education Provision 2013/14	Audit work was undertaken to cover the following areas: • Compliance with statutory & local requirements; • Governance; • Information management; • Assessment of student needs; • Contracting and contracts; • Expenditure; and • Performance.	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk. The key findings are as follows: • Quality assessments of service providers are completed through a framework developed by the North London Strategic Alliance (NLSA); • Alternative Provision Service officers attend periodic meetings of the NLSA; • An initial Service Proposal was developed setting out the rational and purpose of the Virtual Roll pilot, to identify and place in specialist providers those students received into the Borough in-year for who a	**Limited**

Audit area	Scope	Status/key findings	Assurance
		normal maintained school place cannot be found due to their needs and the lack of school places at KS4 in the borough; • A standard template is used for the Alternative Education Assessment Report, which includes an assessment overview for the client and include recommendations, where appropriate; • There is no section on the standard assessment report template which requires a signature and date from the assessing officer, and as a result the reports are not signed off; • Individual students are referred to the Alternative Provision Service on a monthly basis by the Admissions Service; • A record of students referred to the Service is maintained on a Virtual Roll tracker; • An individual student folder containing all data related to that student is maintained on the Alternative Provision shared drive, although for one of five students sampled, this had not been set up, though there was evidence that information on the students was retained but not in the designated folder; • An individual student reference number (UP Number) is allocated to identify each student; • No formal notice is issued to service providers to confirm services to be provided to individual students; • Examination of an invoice dated 28.12.2013 for £21,253.34 from the College of Haringey, Enfield and North East London to the Octagon found that although the invoice was authorised for payment, there is no evidence of certification of the invoice to confirm the checks being completed to confirm the accuracy of the details included therein; • Provider invoices are paid pro-rata for the period the student is placed for each term, apart from CoNEL. They invoice for the whole of the Autumn Term regardless of whether the student was there for the whole term or part, and then pro-rata for subsequent terms. This is accepted by the service on the need to place individual students in a course of education; and • Standard contracts and service level agreements have been drafted,	

Audit area	Scope	Status/key findings	Assurance
		although it was noted that no contract has of yet been formally entered into due to the service being a pilot study. As a result of our audit work we have raised one Priority 1 and three Priority 2 recommendations, which should assist in improving the control environment. The Priority 1 recommendation is as follows: • Irrespective of whether the service continues as a pilot scheme or is formally implemented, it should be ensured, as a matter of urgency, that a signed contract is in place with all providers used by the Council for the provision of alternative educational services. All signed contracts should then be recorded in the corporate contract register for monitoring purposes. The Priority 2 recommendations are as follows: • The standard template used for the Alternative Education Assessment Report should include a section requiring a signature and date from the assessing officer. A memo should be communicated to all relevant officers involved in the assessment process advising them of the requirement to sign and date the report. • A process should be implemented immediately for the communication by the Council to the service provider of a formal notice of the specific services to be provided to individual students, based on their needs assessment. A copy of the notice should be forwarded to the student's parents or carers, as well as to the Octagon. Furthermore, management should consider obtaining written confirmation from the student's parents or carers of their acceptance of the choice of service providers. • On completion of the checking of the validity of all service provider invoices against expected students, agreed courses and student attendance the invoices should be signed off and dated by the Inclusion Manager to confirm completion of the check, prior to the invoices being authorised for payment by the relevant budget holder.	

Detailed Progress Report – Outstanding Recommendations 2011/12

Ref	Recommendation	Priority	Original Implementation Deadline	Progress/Status
CORPORATE RESOURCES – KEY FINANCIAL SYSTEMS				
Accounts Receivable (Sundry Debtors)				
1	The Debt Recovery procedure should be reviewed and amended, where required. The review should include an assessment of required timescales within the debt recovery process. Following the review, the Debt Recovery procedure should be formalised and implemented and should include KPIs for the Debt Recovery process. Periodic sample checks should be completed to confirm compliance with the procedure and the KPIs. This recommendation incorporates and re-raises the 2010/11 recommendation.	2	September 2011	**Partly Implemented** ***Management Update March 2013:*** The draft procedures were published to reflect the move to a Corporate Debt Management (CDM) structure and described the proactive collections activity being undertaken to achieve collection. In terms of the SAP dunning process, which includes the 30 day timescales, the "as is" position was adopted into the revised procedures as this requires amendments to the SAP system. Given the current restrictions in place on SAP development this will be addressed as part of the OneSAP project. ***Revised Deadline***: 31 December 2013
PROCUREMENT AUDIT				
HAYS Resource Management				
2	The HR team should request that HAYS Resources: • Disclose the hidden information supporting the graphs within the monthly Headline Report; • Incorporate the job position numbers into the Headline Report; and • Ensure agency release forms are not processed without the job number included.	2	October 2011	**In Progress** ***Management update as at January 2012*** The new vendor system, Hays 3SS was due to go live on 7 January 2012. Notes and updates on the new system were circulated by the Head of HR Services to managers on 6 January 2012. It was expected that the implementation of the new system would result in the position and job numbers being made

Ref	Recommendation	Priority	Original Implementation Deadline	Progress/Status
				mandatory fields and in managers being able to produce their own reports to extract performance data from Hays 3SS. The system was piloted for a period of two weeks from 7-22 January 2012, prior to its expected full release. However, there were issues identified during the piloting stage. A meeting was held between the relevant Council officers and Hays on 20 January 2012 to review progress with the implementation phase and discuss the issues identified. However, subsequent to the meeting a decision was made by management to defer the implementation of the new system until further consideration is given to the issues and until the Council's IT systems are upgraded, as required, and further testing carried out. The decision was taken to continue with the Hays Workflow system until a technical solution is found and implemented with regards to Hays 3SS. Through discussions with management, we had identified that only one officer within HR had access to the Hays 3SS system, while it was being piloted. The controlled two week pilot revealed technical issues which we cannot overcome at this point in time. In view of this, Hays have rolled us back to the Hays Workflow system. The existing process on Workflow remains unchanged. The timing of further testing and implementation of Hays 3SS will be dependent on the outcome of discussions with Hays and the resolution of technical issues. ***Human Resources Update August 2013*** The contract has been awarded to Hays. Discussions are scheduled to start mid September to plan the implementation of the Hays 3SS system. ***Revised deadline:*** *September 2013*

Ref	Recommendation	Priority	Original Implementation Deadline	Progress/Status
				HR Update October 2013: The Hays 3SS system is in the process of being implemented and is expected to go live on 18 November 2013. We will need to wait until the system is running before starting to address the issues raised in the recommendation, including inclusion of the relevant information in the reports. We plan to meet with Internal Audit in Mid January 2014 to discuss this and we will then provide an indication of the timescale for the full implementation of the recommendation.
3	The Balance Scorecard and Headline Report provided by HAYS Resources should be aligned to include information provided for management review in the same format. Any variation should be explained.	2	November 2011	**In Progress** ***HR Update October 2013*** As above
	CHILDREN AND YOUNG PEOPLES SERVICE			
South Grove Children's Centre				
4	The following documents should be presented to the Children's Centre Committee for review and approval: • Revised Internal Scheme of Financial Delegation; • Centre Development Plan for 2011/12; and • Haringey Schools Financial Manual. The approval should be recorded in the minutes of the relevant Committee meeting. The Committee should then formally advise the Governing Body with regards to acceptance of the documents. Governing Body approval should be recorded in the minutes of the relevant meeting. Furthermore, a process should be implemented for the	1	July 2012	**Partly Implemented** ***Management Update as at June 2013:*** OFSTED, when visiting in October 2012, recommended that we re-structure our GB committees so that Children's Centre comes under the full general GB and relevant sub-committees. We therefore no longer have a separate Children's Centre Committee. 1. Scheme of delegation minuted and approved GB meeting 7 Feb 2013. 2. Haringey Schools Financial Manual - minuted as such on 7 March 2013. 3. Last children's Centre Committee was held on 18 April 2012. Children's Centre Plan was approved here. A 13/14 plan cannot be finalised until the LA SLA meetings have set our

Ref	Recommendation	Priority	Original Implementation Deadline	Progress/Status
	continued relevance of all documents affecting the governance of the Centre to be confirmed by the Children's Centre Committee.			targets. We are awaiting the LA and anticipate this to be done by the end of July 2013. 4. Documents: The school and Children's Centre have a combined spreadsheet that lists the policies that are in place and their expiry dates. This list is used when preparing policy and document updates for Governing Body meetings. ***Management Update as at 24 July 2013:*** The targets for the Children's Centre will be agreed by the Local Authority on 30 July 2013, following which the 2013/14 Plan will be finalised. ***Management Update as at 22 October 2013:*** Provisional targets have been agreed with the Local Authority but these have not yet been finalised. We are waiting to hear from the LA as to when this will happen. ***Internal Audit Comments:*** The Local Authority's Early Years Manager has confirmed that the final targets will be communicated on 25 October 2013. We will allow time for the Children's Centre to finalise their 2013/14 Development Plan, for approval by the Governing Body, and we will provide an update in our next report to Corporate Committee.

Follow Up Table – 2012/13 Audit Work

AUDIT AREA	Assurance Level	Recommendations												Priority 1 Recs. Outstanding
		Category				Implemented								
		1	2	3	Total	1	2	3	Total	N/A	Not Imp.	In Progress	Not due	
Corporate Resources – Key Financial Systems														
Revenues, Benefits & Customer services Integration	Substantial	0	1	0	**1**	0	1	0	**1**	0	**0**	**0**	**0**	0
Corporate Resources – Procurement														
Contract Monitoring Procedures	Substantial	0	3	0	**3**	0	3	0	**3**	0	**0**	**0**	**0**	0
Use of 'Compete For' Portal & Quotation Process	Substantial	0	2	1	**3**	0	2	1	**3**	0	**0**	**0**	**0**	0
Place & Sustainability														
Haringey Public Mortuary	Limited	3	5	1	**9**	3	5	1	**9**	0	**0**	**0**	**0**	0
Parking Services: Car Pound	Substantial	0	1	0	**1**	0	1	0	**1**	0	**0**	**0**	**0**	0
Illegal Money Lending	Substantial	0	0	0	**0**	0	0	0	**0**	0	**0**	**0**	**0**	0
Adult and Housing Services														
Homelessness Assessment Processes	Substantial	0	1	1	**2**	0	1	1	**2**	0	**0**	**0**	**0**	0
Decent Homes Programme	Substantial	0	0	0	**0**	0	0	0	**0**	0	**0**	**0**	**0**	0
Adult & Housing Risk Register Testing	Full	0	0	0	**0**	0	0	0	**0**	0	**0**	**0**	**0**	0
Occupational Therapy Service	Substantial	0	1	0	**1**	0	1	0	**1**	0	**0**	**0**	**0**	0
Court of Protection and Deputyship	Substantial	0	2	1	**3**	0	2	1	**3**	0	**0**		**0**	0
Chief Executive – People and Organisational Development														
Declarations of Interest	Limited	1	2	0	**3**	1	2	0	**3**	0	**0**	**0**	**0**	0
Gifts and Hospitality	Limited	1	2	1	**4**	1	2	1	**4**	0	**0**	**0**	**0**	0

DELOITTE INTERNAL AUDIT - QUARTERLY AUDIT REPORT 2013/14

APPENDIX A

AUDIT AREA	Assurance Level	Recommendations												Priority 1 Recs. Outstanding
		Category				Implemented								
		1	2	3	Total	1	2	3	Total	N/A	Not Imp.	In Progress	Not due	
Data Quality	Substantial	0	1	0	**1**	0	0	0	**0**	0	**0**	**1**	**0**	0
Health & Safety	Limited	3	3	0	**6**	3	3	0	**6**	0	**0**	**0**	**0**	0
Public Health														
Smoking Cessation Programme	Substantial	0	0	0	**0**	0	0	0	**0**	0	**0**	**0**	**0**	0
Health Checks Programme	Substantial	0	2	0	**2**	0	2	0	**2**	0	**0**	**0**	**0**	0
Total		**8**	**26**	**5**	**39**	**8**	**25**	**5**	**38**	**0**	**0**	**1**	**0**	**0**

Implemented – officers has indicated through self-certification the progress of recommendations. We have verified a sample of responses.
N/A – the recommendation is no longer applicable due to changes in the system, or alternative action has been taken to address the risk.
Not implemented – the recommendation has not been addressed, alternative action has not been taken.
In Progress – officers have started implementation of recommendations

Detailed Progress Report – Outstanding Recommendations 2012/13

Ref	Recommendation	Priority	Original Implementation Deadline	Progress/Status
			CHIEF EXECUTIVE	
Data Quality				
1	The Data Quality Policy should be reviewed annually, updated where necessary and made available to staff. Evidence of this should be retained e.g. through the use of version control.	2	7 September 2012.	**In Progress** The Performance Manager has confirmed that while work has been undertaken to review the Data Quality Policy, this has not yet been completed due to the service waiting on the results of the Government consultation on transparency which it expected to incorporate within policy, and the requirement to complete Children Service statutory returns by the end of July 2013. The results of the Government review are expected to be produced soon, and following this, it is anticipated that the policy will be updated by the end of September 2013. **Revised deadline 30 September 2013.** **Management Update October 2013:** The Data Quality policy has been updated to take account of changes since 2012. It references that following publication of the Government Consultation by CLG expected sometime in the Autumn that our approach to data transparency will be outlined in a Data Transparency Policy statement. The DQ Policy has been scheduled to go to the next Information Governance Board for approval but in the meantime will be published on the intranet and made available to staff. The dates of review and approval of the Policy will be recorded and updated on the latest version of the Policy before publication. **Timescale:** Policy updated by 17/10/2013, to be approved by Information Governance Board at their next meeting and published on the intranet by 31/10/2013.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited

London

October 2013

In this document references to Deloitte are references to Deloitte & Touche Public Sector Internal Audit Limited.
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APPENDIX B

IN HOUSE AUDIT – IRREGULARITIES INVESTIGATED 01/04/13- 31/03/14 & B/F FROM 2012/13

Directorate	Irregularity Type	No. of cases investigated	No. of cases proven at 30/09/2013	No. of Officers subject to Disciplinary Investigation	Disciplinary Outcome	Value (£) (if known)
Assistant Chief Executive	Allegation of running a private business in work time	1	1	1	Dismissed	
Children and Young People's Service	Allegation of Benefit Fraud	5	5	5	1 x Final Written Warning 1 x Dismissal 3 x Pending Disciplinary Action	£108,160
Adults and Housing	Allegation of contribution to irregular benefit claim B/F 2012/13	1	1	1	Dismissed Appeal Lodged	
	Allegation of Irregular Time Keeping B/F 2012/13	1	1	1	Standard Setting undertaken	
Place and Sustainability	Allegation that right to remain in the UK has expired	1	1	1	Dismissed Appeal Lodged	
TOTAL		9	9	9		£108,160

Haringey Council – Audit Committee

Disciplinary Case Analysis July 2013 to September 2013

Introduction

The information in this report is taken from SAP, covering the period **July 2013 – September 2013.**

The data is based on Haringey Council employees who

- hold Permanent, Temporary or Fixed Term Contracts

Note that this data excludes:

- Casual or Sessional Workers
- Schools
- Agency Workers

Legend	
Adults & Housing	AS
The Children & Young People's Service	C
Chief Executive	CE
Corporate Resources	CR
Public Health	PH
Place & Sustainability	PS
Strategy & Performance	SP
Haringey Council	HGY

The Council's Disciplinary Procedure is considered as a tool to assist in good management and not solely as a means of imposing sanctions or setting out procedures leading to dismissal.

The procedure aims to:

- Allow managers to address issues of unsatisfactory conduct and seek improvements in behaviour
- Ensure that employees covered by the procedure are treated fairly and consistently
- Ensure that proper and adequate procedures are observed before any disciplinary decisions are taken
- Help and encourage all employees to achieve and maintain standards of conduct, attendance and job performance
- Maintain discipline essential to the delivery of high quality services
- Protect the health, safety and well being of staff, service users and members of the public
- Safeguard the integrity and good reputation of the Council
  (Disciplinary Procedure September 2012)

Disciplinary Cases

This section looks at the number of formal actions taken against employees under the disciplinary procedure.

Disciplinary Cases by Directorate

Directorate	Cases Open	Cases Closed	No of cases	No of employees
AS	6	8	14	10
C	4	3	7	7
CE	0	2	2	2
CR	0	0	0	0
PH	0	0	0	0
PS	8	1	9	9
SP	0	0	0	0
Total	18	14	32	28

Please note that the total number of cases is 32, but this only represents 28 employees. The reason being is that one employee can have more than one case in the same period. For example, an employee's dismissal could count as one case and their appeal as another.

- **Adults & Housing** has the highest percentage of disciplinary cases against its workforce at **1.5%** in this quarter

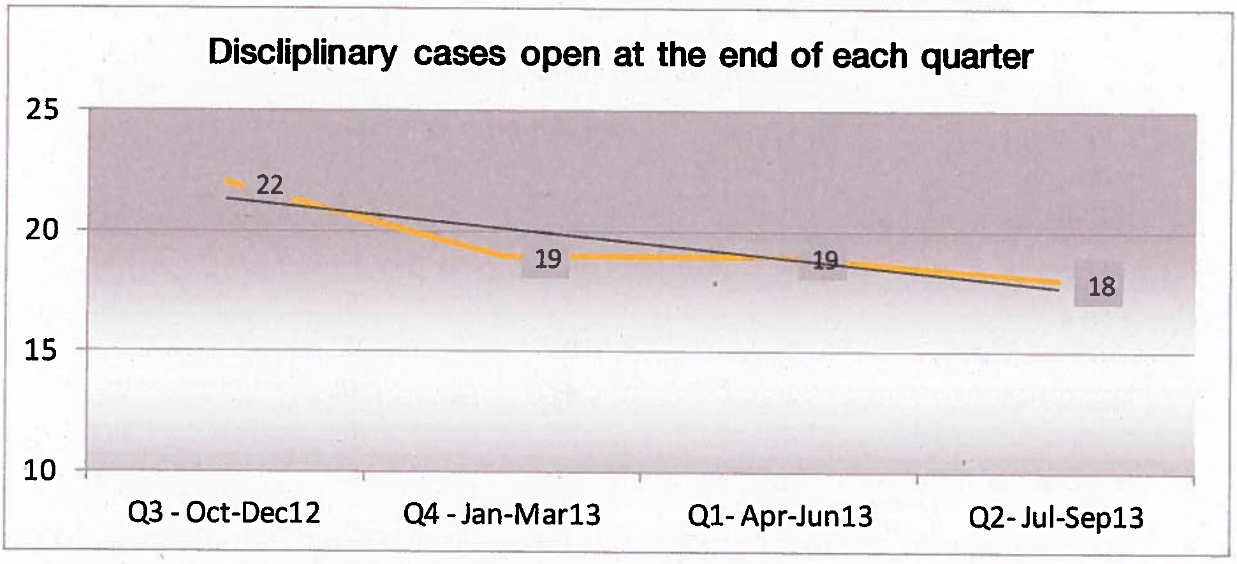
The following table looks at the stages of Disciplinary cases.

Stages of Disciplinary Cases

Stage	Cases Open	Cases Closed	Total	%
Invest. - not suspended	3	5	8	25
Invest. - suspended	10	9	19	59
ET	1	0	1	3
Appeal	4	0	4	13
Total	18	14	32	100

- 18 cases remain **'open'** at the end of this quarter.

The following graph looks at the number of disciplinary cases open each quarter.



The following table identifies the outcomes of the **14** cases that were closed in this period.

Disciplinary Case Outcomes

Outcome	Invest. - not suspended	Invest. - suspended	Invest. - appeal	Invest. - ET	Total	%
Compromise agreement	0	0	0	0	0	0
Dis. Appeal Dismissed	0	0	0	0	0	0
Dis. Appeal Part Upheld	0	0	0	0	0	0
Dis. Appeal Upheld	0	0	0	0	0	0
Dis. Appeal Withdrawn	0	0	0	0	0	0
Dis. Dismissal	0	3	0	0	3	21
Dis. ET Dismissed	0	0	0	0	0	0
Dis. ET Withdrawn	0	0	0	0	0	0
Dis. Final Written Warning	0	0	0	0	0	0
Dis. No Action	4	3	0	0	7	50
Dis. Other	0	0	0	0	0	0
Dis. Relegation/Demotion	0	0	0	0	0	0
Dis. Resigned	0	0	0	0	0	0
Dis. Verbal Warning	0	0	0	0	0	0
Dis. Warning & Sanction	0	2	0	0	2	14
Dis. Written Warning	1	0	0	0	1	7
Escalated to next stage	0	0	0	0	0	0
Suspension Lifted	0	1	0	0	1	7
Total	5	9	0	0	14	100

This table displays reasons for Disciplinary action against employees.

Reasons for Disciplinary Cases				
Reason	Cases Open	Cases Closed	Total	%
Assault	0	1	1	3
Attendance	0	0	0	0
Behaviour	6	5	11	34
Fraud / Theft	5	0	5	16
Misuse of resources	1	2	3	9
Negligence	2	4	6	19
Other	4	2	6	19
Total	18	14	32	100

- The highest cause for disciplinary action was for **Behaviour at 34% and Other Reasons at 19%**

This table looks at the ethnic breakdown and gender split for Disciplinary cases

Disciplinary Case employee representation by Ethnicity and Gender						
	Female		Male		All	
Ethnic Class	Total	%	Total	%	Total	%
B A M E	12	55	10	45	22	79
White	2	40	3	60	5	18
Not Declared	1	100	0	0	1	4
Total	15	54	13	46	28	100

- **32%** of the workforce is male, but the male representation with disciplinary cases is higher at **46%**
- **37.8%** of the workforce is female BAME, but the female BAME representation with disciplinary cases is higher at **55%**

The following table looks at the ethnic breakdown across grade bands.

Disciplinary Case employee representation by Ethnicity and Grade Band (T = Total no. in grade band, WF = % of total disciplined employees)													
HGY	Ethnic Group	SC1-SC5		SC6-SO2		PO1-PO3		PO4-PO7		PO8+		TOTAL	
		T	WF	T	WF	T	WF	T	WF	T	WF	T	WF
	B A M E	8	29	6	21	4	14	4	14	0	0	22	81
	White	2	11	2	7	0	0	1	4	0	0	5	19
Total		10	39	8	28	4	14	5	18	0	0	27	100

* 1 employee in grade band SC1-SC5 did not declare their ethnicity

Suspensions

This table shows a summary of suspension cases.

Summary of Suspension Cases	
Case status	Total
No. of cases heard	10
No. of cases not concluded	9
No. of cases not concluded - leaver	0
Total	19

Timescales (no of days) of Suspension Cases

The table below looks at the 19 suspension cases and identifies the no. of working days each case has taken. If a case has not concluded by the end of the quarter, the number of working days is calculated from the start date of the suspension to the end of the quarter.

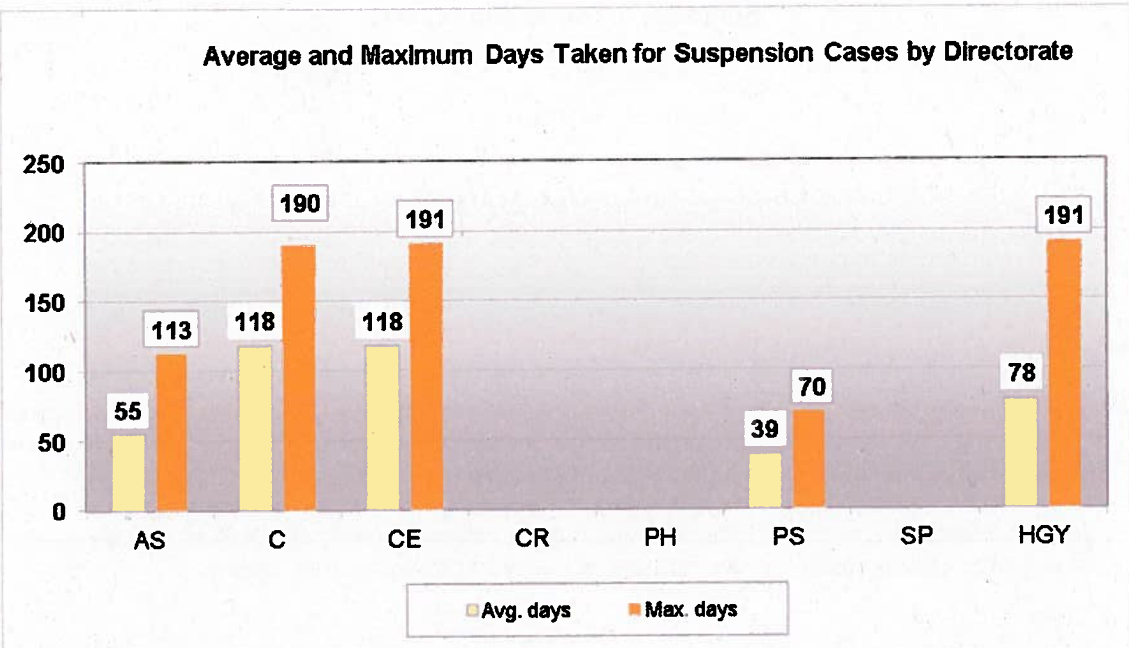
The table also identifies by directorate, the average number of days suspension for all cases, the maximum days for a single case and the number of cases heard within that period.

Timescales (no of days) of Suspension Cases										
Directorate	1-60	61-120	121-180	181-240	240+	Total cases	Total days	Avg. days of total cases	Max. Days	Total cases heard
AS	4	3	0	0	0	7	387	55	113	5
C	1	2	2	1	0	6	708	118	190	2
CE	1	0	0	1	0	2	236	118	191	2
CR	0	0	0	0	0	0	0	0	0	0
PH	0	0	0	0	0	0	0	0	0	0
PS	3	1	0	0	0	4	155	39	70	1
SP	0	0	0	0	0	0	0	0	0	0
HGY	9	6	2	2	0	19	1486	78	191	10
Total cases closed	4	4	0	2	0	10				

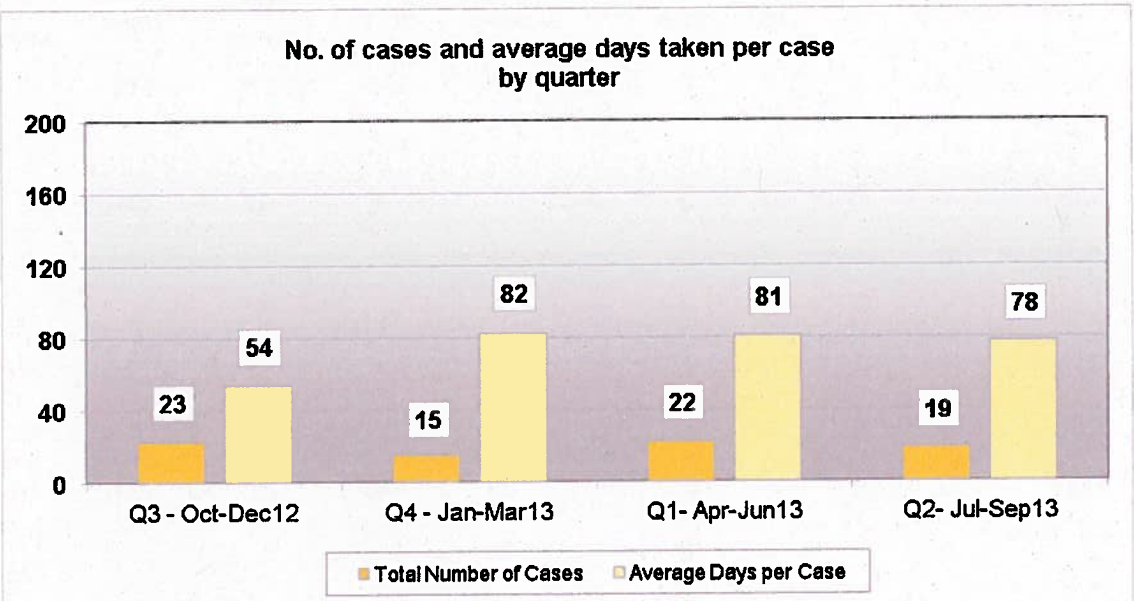
On average, 78 days were spent on each suspension case within the quarter.

Suspensions (continued)

The chart below illustrates the average and maximum number of days taken for a suspension case by Directorate for the quarter.



The chart below looks at the number of suspension cases per quarter for a rolling year and highlights Haringey Council's average number of days per case.



The average number of days suspended for the quarter was 78 with a total of 19 cases. 9 of these cases remain open at the end of Quarter 2.

Appendix D
List of Consultants

Dir	Business unit	Status	Start date	Original End Date	Revised End date	Actual End Date	name of consultancy / agency or if applicable mark 'Self Employed'	Daily Rate	Days per week	Funding from Revenue, Capital, or Grant	Reason for engagement & benefits
CYPS	PEI	Consultant	31/05/2012	30/03/2013	31/03/2014		Self Employed - waiting for Ref number	£350 +£20.00 travel	2	Revenue	2012-13 developed places for 2 Year Old programme from 2013 -14 leads on improving quality for 2 year olds places
CYPS	PEI	Consultant	21/02/2013	30/08/2013	30/11/2013		Ameo Recruitment Agency	£630	2 to 4	Revenue	Assist with preparing Youth, YOS and Alternative Provision to move to a commisioning approach.
CYPS	PEI	Interim	08/07/2013	06/12/2013			Green Park Interim & Exec search	£675	4	Capital	Interim Head of Integrated Working & Family Support
CYPS	PEI	Consultant	03/07/2013	27/09/2013	31/12/2013		Ameo Recruitment Agency	£595	2	Capital	To review the YOS and prepare them for the regulatory inspection.
CYPS	PEI		13/02/2013	30/09/2013	01/11/2013	01/11/2013	Woodrow Mercer Recruitment	£515	3	Revenue	Performance Management
CYPS	PEI	Interim	01/07/2013	04/10/2013	31/03/2014		Self Employed	£460	5	Revenue	Head of Youth and Community Participation
CYPS	PEI	Consultant	01/08/2013	31/07/2014			Self Employed	£32,000 in total	5	Revenue	Manage and run the Unity Radio project
CYPS		Interim	01/07/2013	31/12/2013	31/03/2014		Penna Recruitment Agency	£600	5	Revenue	Interim head of Schools HR
CYPS	School Standards & Inclusion -	Interim	01/09/2011	31/03/2014			Self Employed	£500	5	Revenue	School Improvement Advisor
CYPS	Children & Families	Interim	29/04/2013	31/03/2014			Sanctuary Personnel Ltd	£518	5	Revenue	Interim cover for HoS Commisissioning & Placements (Adoption & Fostering)
CYPS	Children & Families	Consultant	27/08/2013	26/11/2013			Self Employed - Wardell Associate Ltd	£250	2.5	Revenue	LCSB Policy Officer - additional resource required to complete work within deadlines.
CYPS	Children & Families	Consultant	15/07/2013	27/09/2013	30/11/2013		Self Employed	£400	3	Revenue	To deliver a programme of work around quality assurance (Commissioning)
CYPS	Children & Families	Consultant	01/06/2011	31/12/2013			Self Employed	£245	1 to 2	Revenue	Independant assessor supporting Adoption team in the assessment of relatives and fosters carers as Special Guardians and prospective adopters
CYPS	Children & Families	Consultant	01/06/2011	31/12/2013			Self Employed	£245	1 to 2	Revenue	Independant assessor supporting Adoption team in the assessment of relatives and fosters carers as Special Guardians and prospective adopters
CE	BLT	Consultant	01/12/2011	30/11/2013			Self Employed	£432	as & when	Revenue	Works on an occasional basis only. Monitors our HB Subsidy claim and advises on areas where we can further increase our income through subsidy.
CE	BLT	Consultant	01/09/2012	31/03/2014			Indigo Edge Management Consultancy Agency	£500	2	Revenue/ Grant	Project Manage the Welfare Reform Programme
CE	BLT	Consultant	01/09/2012	31/03/2014			Indigo Edge Management Consultancy Agency	£500	2	Revenue/ Grant	Project Manage the Welfare Reform Programme
CE	HR	Interim	05/08/2013	31/05/2014			Penna Recruitment Agency	£730	5	Revenue	Interim Head of HR

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CE	HR	Consultant	30/09/2013	30/06/2014			Penna Recruitment Agency	£580	5	Revenue	Policy review Case management Change and Restructure of HR/OD Gaps in strategic HR capability
CR	Corporate Finance	Interim	01/03/2012	28/02/2014			CIPFA	£595	4	Revenue	Interim Head of Corporate Finance - covering vacancy
CR	Corporate Finance	Interim	12/12/2012	04/10/2013	31/12/2013		Allen Lane Interim Recruitment Agency	£300	5	Revenue	Senior Capital Accountant
CR	Corporate Finance	Interim	05/11/2012	31/01/2014			CIPFA	£495	4.5	Revenue	Interim Head of Finance (CYP) - covering vacancy
P&S	Director	Consultant	06/08/2012	31/12/2013			RESPECT Recruitment Agency	£400	10 days over 6 months	Revenue	Chair of Domestic Homicide Review
P&S	Director	Consultant	27/05/2013	27/11/2013			Penna Recruitment Agency	£800	4	Revenue	Growth & Regeneration project. Overseeing economic growth strategy for borough: Review HALS:Help develop Council's approach to housing investment & renewal
P&S	Director	Consultant	27/05/2013	27/06/2014			Gatenby Sanderson Recruitment Agency	£855	4	Revenue	To develop a strategy to set out Haringey's housing regeneration approach
P&S	Director	Interim	15/04/2013	31/12/2013			Odgers Interim Recruitment Agency	£640	5	Revenue	Interim Head of Development Management
P&S	Director	Interim	07/01/2013	05/07/2013	31/12/2013		Odgers Interim Recruitment Agency	£750	5	Revenue	Interim AD Major Projects
P&S	Corporate Property Services	Consultant	01/11/2008	30/09/2013	31/12/2013		Self Employed: Property Design & Consultancy Ltd	£450	2	Capital	Specialist property skills, advice and support related to Spurs project and 639 High road
P&S	Corporate Property Services	Consultant	01/10/2011	30/09/2013	31/12/2013		Self Employed: Simon Consultancy	£380	3	Revenue	Assist with priority work streams of the Haringey Property review and provide stategic advice.
P&S	Corporate Property Services	Consultant	01/04/2013	31/12/2013			CPC Solutions UK	£385	1	Revenue	To provide expert advice on options to improve financial performance at Technopark
P&S	Single Frontline Services	Consultant	05/01/2009	31/08/2013	08/11/2013		Odgers Interim Recruitment Agency	£530	3	Revenue	Finalising the mobilisation of the Highways Contract and a review of Veolia Contract, due to end Aug 2013.xtended to assess the outcomes to date of the Veolia contract and particularly street cleaning performance and costs.
P&S	Single Frontline Services	Consultant	05/05/2007	31/03/2014			Penna Recruitment Agency	£290	3	Revenue	Provides specialist advice and support for software (Confirm), building asset database, IT solution for NAT and training team.Mobilisation of Highways contract and mobile working support.

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List of Consultants

Dir	Business unit	Status	Start date	Original End Date	Revised End date	Actual End Date	name of consultancy / agency or if applicable mark 'Self Employed'	Daily Rate	Days per week	Funding from Revenue, Capital, or Grant	Reason for engagement & benefits
P&S	Single Frontline Services	Interim	13/08/2012	30/09/2014			Gatenby Sanderson Recruitment Agency	£600	5	Revenue	Provide strategic lead for Community Safety within Haringey and establish a revised structure. Advert out for post interviews planned for end of September- Head of Community Safety post 50214075
P&S	Single Frontline Services	Interim	07/05/2013	30/04/2014			Odgers Interim Recruitment Agency	£600	5	Revenue	Backfill parts of AD SFL post: Traffic Management, Neighbourhood Action Team, Regulatory Services post 50011230
P&S	Single Frontline Services	Consultant	24/06/2013	31/12/2013			Gatenby Sanderson Recruitment Agency	£380	5	Revenue	As part of the Community Safety Review this area of work was identified as a significant gap and it is intended to create a role as part of the proposed revised Community safety Structure. This is planned to be consulted on during Aug / Sept with planned implementation in October, permanent filling of the role will depend on availbility of successful candidate.
P&S	Planning, Regeneration & Economy	Consultant	15/01/2009	31/03/2013	waiting for update		Penna Recruitment Agency	£675	2 to 3		
PH	Public Health	Consultant	17/06/2013	29/11/2013			Self Employed: Paul Fraser Associates.	£500	varied	Grant	HIV Prevention Service

Appendix E

Proposed implementation of the Single Fraud Investigation Service (SFIS) and the Implications for local authority counter-fraud investigations

1. Background

1.1 The Single Fraud Investigation Service (SFIS) is the proposed programme to investigate all welfare benefit fraud through a single, DWP-led, investigation service. The programme was originally announced by the DWP in October 2010, without any consultation with local authorities (LAs). Following LA representations to the DWP highlighting concerns about the proposed arrangements, a consultation exercise was belatedly undertaken, which overwhelmingly confirmed a preference for retaining a Housing Benefit counter-fraud presence within LAs.

1.2 In October 2011, the DWP stated: '*The Government proposes the creation of a single integrated fraud investigation service with statutory powers to investigate and sanction all benefit and tax credit offences which will combine relevant resources across LAs, HMRC, and DWP.*' The DWP subsequently established four 'pilot' programmes across the country, including one led by the London Borough of Hillingdon to explore the options for implementing SFIS with staff working within an overall DWP framework to develop procedures for the investigation of benefit fraud in a co-production model. The DWP has not, to date, released any progress updates, detailed feedback or outcomes from the pilot programmes.

1.3 In October 2013, prior to the completion of the pilot projects, the DWP released a paper entitled 'SFIS – Option Decision Rationale'. This paper states that the pilots continue to provide very useful feedback, without providing any further details, but states that the SFIS Project made a recommendation that '*SFIS should be rolled out as a single organisation within DWP'*. Again, LAs were not consulted in this recent assessment or recommendation made by the DWP.

1.4 Two of the DWP pilot programmes are LA led, but there is anecdotal evidence that they have not been provided with management information by the DWP to allow meaningful comparison of the service they have delivered. LA concerns raised with the DWP in 2010 remain outstanding and have not been addressed by the DWP in any of their subsequent papers or announcements. The DWP have stated that SFIS will become operational in 2014/15; although no specific date has been given.

1.5 The DWP's Option Decision Rationale paper dismisses all options, including the existing partnership working arrangements which have been in place to date, and states that the introduction of Universal Credit (UC) would reduce LA interest in the welfare benefit arena. This clearly ignores all other benefits and support provided via local authorities which are planned to continue well beyond the introduction of UC, despite the DWP remaining silent on when UC will be introduced.

1.6 Recently publicised problems with UC, the rollout having already slipped from October 2013 to 'sometime in 2017', include IT infrastructure and costs, poor project management, an ill defined project scope, lack of leadership and ownership of resources and budgets.

1.7 Social and private sector landlords have raised concerns with the DWP that giving their tenants one monthly payment to cover all their family's outgoings might increase the instance of rent arrears with consequential implications for their revenue income. This may increase the pressure on local authorities further as private sector landlords may withdraw from the social housing market, combined with falling revenues from their own housing stock.

2. Areas of concern

2.1 With the DWP's announcement that SFIS will operate as a single organisation within the DWP, LAs have a number of concerns which are set out below.

2.2 No/limited capacity to address fraud in legacy Housing Benefit cases

2.2.1 There is a strong indication, although no confirmation from the DWP, that LAs will lose their authority to investigate welfare benefit fraud at the point that SFIS is implemented, which could be as early as April 2014. 'Legacy' Housing Benefit (HB) cases will remain with LAs at this point and there may be no authority or resource to investigate claims administered by the council.

2.2.2 Haringey was one of the DWP 'Pathfinder' areas and the HB fraud team have developed excellent working relationships with their DWP counterparts in bringing benefit fraudsters to court. However, despite this, the DWP's processes can be much slower than the council's and we are still waiting to prosecute six cases from 2012/13 which we worked on jointly, with the DWP taking the lead.

2.2.3 We have no indication that the DWP will prioritise cases which remain with LAs with the implementation of SFIS. In 2012/13, Haringey prosecuted 35 cases worth £747k in overpaid and fraudulent benefits. Joint working with the police, DWP and HMRC recently resulted in a confiscation order of £250k against a benefit fraudster; who had previously been given a custodial sentence for £190k worth of fraudulent claims.

2.3 Impact on other Council investigation work

2.3.1 DWP information is currently available to the Council if there is benefit in payment at an address that is the subject of an investigation into other fraud types, including tenancy fraud, council tax discounts, right to buy applications, blue badge and concessionary passes use, housing waiting list and homelessness application fraud and assistance provided to persons without recourse to public funds.

2.3.2 DWP held information is unavailable to council investigations unless there is an associated HB claim that could be affected. If SFIS progresses as it has been stated by the DWP, there is a high risk that other investigations will be significantly affected. Even if the information would still be available to us where HB/CTR was in payment, the LA would lose its current 'Authorised Officer' powers to obtain further information from other sources; and this would negatively impact our investigative abilities.

2.3.3 This could mean that the HB fraud team's recently started project to target rogue landlords may have to be stopped, or seriously reduced in scope if the benefit information were no longer available. It is the DWP benefit data which is providing the team with the leverage to target and stop rogue landlords from perpetrating fraud and criminal activity in Haringey.

2.3.4 As stated above, the HB fraud team prosecuted benefit cases worth £747k in 2012/13. During the same year, the HB fraud team also stopped 15 fraudulent Right to Buy applications with a value of over £1m; and the corporate anti-fraud team recovered 30 fraudulent tenancies with value of £540k. Housing tenancy and benefit fraud can co-exist, with landlords claiming benefits fraudulently and sub-letting properties. Without the ability to look at all aspects of tenancy fraud, the recently enacted Social Housing Tenancy Fraud Act will not be as an effective weapon for LAs in counteracting this area of high cost fraud: estimated by the Audit Commission at over £1bn nationally.

2.4 DWP intention to end joint working on areas of common interest

2.4.1 The DWP have already advised that there is to be no joint working with LAs on Council Tax Reduction Scheme (CTRS) cases. This will affect the totality of sentencing, increase costs of prosecution and runs contrary to the DWP's own statements that SFIS will provide 'a coherent policy, process and procedure aligned with all required legal powers for investigating all welfare benefit fraud'. A person who may have defrauded both services may have to attend two separate investigative interviews and essentially answer the same questions at each.

2.4.2 Working with the DWP jointly, as we do at present, ensures that all elements of the individual's fraud are dealt with as part of a single prosecution cases. The HB and corporate anti-fraud teams are also undertaking joint prosecutions with other LAs on individuals who have committed multiple benefit and housing frauds against more than one authority. The DWP do not intend to notify LAs routinely of any UC fraud investigations, therefore fraud losses and costs to LAs are likely to increase.

2.5 National Fraud Initiative

2.5.1 The National Fraud Initiative (NFI) data matching service has saved over £1 billion nationally since its inception. It currently includes LA HB data which is matched against other public sector data including tenancy, housing application, right to buy, payroll, pension and housing waiting list data. In addition to identifying Housing Benefit fraud, the NFI also acts as a valuable check against the honesty of all Council staff, including those involved in administering benefits locally and investigating fraudulent claims.

2.5.2 The DWP currently provide the HB data for the NFI exercise directly to the Audit Commission. With the transfer of the NFI function to the Cabinet Office and the implementation of SFIS with the DWP retaining sole authority to investigate benefit-related fraud, the HB data may no longer be available to future NFI exercises.

2.6 Reduction in counter-fraud capacities

2.6.1 The November 2011 decision to leave an HB Counter-fraud capacity with the LA temporarily resolved complex issues around pensions and TUPE rights and retained a link to other areas of fraud investigation. With the announcement of the DWP recommendation in the Option Decision Rationale paper, and previous announcements that SFIS will become operational in 2014/15, these issues will need to be resolved for those staff who are to be transferred to SFIS, although no details have been provided on the scope and resourcing of SFIS at this time.

2.6.2 Originally, the DWP suggested that an additional 200 investigators across the country would be engaged by SFIS. Recent statistics from 2010 show that over 200 benefit investigators were employed by London authorities alone. At present, we have no indication from the DWP about staffing numbers, but it may not be unreasonable to assume that a reduced number of investigators will be employed by SFIS. Even if the DWP recognise, after SFIS is implemented, that a joined up approach to tackling fraud is better than a 'stand alone' DWP function, there may not be the resources available to put this into practice as skills and posts will have been lost. This is likely to have a negative impact on Haringey as pro-active counter-fraud work will be reduced in the future.

3. Proposed actions

3.1 This issue and the concerns outlined in this appendix have been raised at various public sector forum meetings including London Councils, the London Boroughs Fraud Investigation Group, and the London Audit Group.

3.2 The various public sector groups have proposed that senior officers and local councillors write to local MPs (using a template letter attached to this appendix) with a request that they write to the Secretary of State (DWP), and the Parliamentary Under-Secretary of State for Welfare Reform and the Secretary of State for Communities and Local Government, expressing their concerns. It is proposed that the Corporate Committee agrees this course of action.

3.3 It has been further proposed that this Council write separately to the Chair of the Public Accounts Committee, and the Shadow Secretary of State for Work and Pensions outlining its concerns with the current proposals for SFIS.

TEMPLATE LETTER RE SINGLE FRAUD INVESTIGATION SERVICE (SFIS) FOR USE BY INDIVIDUAL OFFICERS TO WRITE TO YOUR LOCAL MPS (please delete this text)

(http://findyourmp.parliament.uk/ - please delete)

MP ADDRESS

DATE

Dear INSERT MP NAME

Local Authority Staff inclusion in the Single Fraud Investigation Service (SFIS)

We are aware that the DWP are about to meet with the Treasury to request funding for the Single Fraud Investigation Service to be owned, managed and led by the DWP. We supportive of the concept of a more joined up approach to fraud investigations in the public sector, but not by the method recommended by the DWP.

We recognise the need to ensure that welfare benefit fraud is prevented and detected, in the best possible and most cost effective way.

The Single Fraud Investigation Service (SFIS) is a massive opportunity to set up a single investigation service, which really works. However, there are serious concerns regarding the following issues:

1. Impact on Local Authority Investigative Resource

All Local Authorities will be left vulnerable to fraud attacks if the proposals go ahead because significant numbers of investigators will leave local authorities, and current data sharing between LAs and DWP for counter-fraud purposes will disappear. Of the estimated £2.1 billion fraud committed against local government, over £1 billion of this involves tenancy fraud, council tax discounts and parking concessions. The DWP have been very reluctant in the past to share their data to prevent fraud unless there are welfare benefit concerns. If DWP information is no longer readily available to these investigations, as I believe will be the case under the current proposals, then these frauds will be more difficult to identify, investigate and sanction.

It appears likely that that the overall number of investigators will be cut significantly, even though this is an area where investment actually delivers a saving to public funds.

Retention of local authority investigators within councils is essential to protect the public purse; however, the fast track of SFIS will harm many authority's plans for this work.

The DWP are not looking holistically at what is best for the public purse - they are purely focussing on welfare fraud.

2. Original proposals which made sense to all parties have been killed off, and the new proposals rushed through

The initial SFIS proposal was made without the courtesy of consulting local Authorities. When it later became apparent that there were a number of practical issues that had not been resolved, and some of the issues included in this letter were raised, consultation took place in 2011. It was agreed at this time that when SFIS was introduced local authority staff would remain employed by local authorities but work under DWP policy and procedures. This resolved incredibly complex issues surrounding pensions and TUPE, and retained the all important local link to councils. It was then agreed that 'pilot' LA's would be set up to test differing processes, DWP promised to analyse feedback from the pilots in order to determine how best SFIS would operate. This no longer appears to be happening.

There appears to have been a move from a sensible process of (belated) consultation with local authorities to a 'steamroller' approach, ignoring all issues cited in previous communications.

3. Universal Credit

Universal Credit has been delayed in order to make sure it works correctly; it is only right that SFIS should also be delayed so that it too works properly. The plans also raise the prospect of Hackney managing legacy Housing Benefit claims for a while but lacking the mandate to investigate suspected fraud within them.

If these proposals are rushed through it will then be too late to prevent a haemorrhaging of skills that could actually be used to prevent fraudulent claims against the public purse and deliver financial savings to government.

4. Severing the link between Universal Credit and Council Tax Reduction Schemes (CTRS)

DWP have already advised that there is to be no joint working with LAs on CTRS cases. This makes no sense, as it will affect the totality of sentencing, increase costs of prosecution and is completely counter-intuitive. There will be no notification of Universal Credit frauds to local authorities, and as these individuals are likely to be receiving CTRS, this will increase fraud loss to councils.

5. Current joined up working arrangements in local government will cease

London Borough of Hackney effectively link different areas of investigation work together. Joint working will be mandated by DWP to cease. As an example of the impact this will have, social housing fraud valued at £2.88 million was identified in the borough in 2012/13. The exchange of data between Benefits and Housing teams currently provides a rich source of intelligence to identify fraudulent claims against both services – this liaison will completely disappear, even though tenancy fraud is a priority area for local government counter-fraud work and is supported by a dedicated central government grant.

The process where Social Services clients are given regular sums of money to buy care packages, known as Direct Payments and Public Health are potentially huge fraud loss areas and new to local government. Yet again, the severing of benefits data will be highly detrimental to fraud detection in these areas. Other areas at risk include Council Tax and payments to those with no recourse to public funds. When this is considered across all of local government, a huge sum is at stake.

The extent to which local authority data benefits the fight against fraud if there is a spirit of cooperation should not be underestimated as the data sources held within the local authority are so wide ranging, from Education to Planning and Council Tax to Trading Standards.

6. Introduction of Local Enterprise Partnerships (LEPs) & localism

Local Enterprise Partnerships (LEPs) have been created to drive public sector growth and reduce administrative burdens. Under the localism agenda, there is likely to be a broader range of funding coming to local areas and to LEPs, albeit with local authorities being the accountable bodies for that funding. Therefore, despite localism expanding and new areas of fraud work being identified, the SFIS proposals are pushing a centralised approach to investigations – this makes no sense and goes against the ethos of the localism agenda.

7. National Fraud Initiative

The National Fraud Initiative (NFI) data matching service has been widely recognised as being an effective way of detecting public sector fraud, so much so that following the demise of the Audit Commission, it has now been transferred to the Cabinet Office to continue the good work. The NFI has saved over £1 billion since its inception; however a lot of the information that yields significant results will be lost. Not only will LA's lose much of the benefit of this extremely valuable exercise, they will no longer have the experienced resources to investigate the matches, again increasing the totality of public sector fraud.

The DWP have never subscribed to the NFI to compare welfare benefit claimant details against other public sector records. Hackney data (e.g. housing tenancy, right to buy, payroll, pension, licensing, housing waiting list, etc) is currently compared against Housing Benefit claims nationwide to identify likely benefit fraud. We have participated in the NFI since its inception and have always supported this activity. In addition to identifying Housing Benefit fraud, the NFI also acts as a valuable check against the honesty of all Council staff, including those involved in administering benefits locally and investigating fraudulent claims. DWP claims and staff are not currently part of the NFI.

I hereby respectfully request that you write to the Ministers below expressing your concern regarding the proposed implementation of the Single Fraud Investigation Service.

The Minister is The Rt Hon Iain Duncan Smith MP who is the Secretary of the State, Department of Works and Pensions with overall responsibility. Letters may be sent to The Rt Hon Iain Duncan Smith MP
Secretary of State
Department for Work and Pensions
Caxton House
Tothill Street
London
SW1H 9DA Or email: caxtonhouse.clerkpru@dwp.gsi.gov.uk

Please also express your concerns to Lord Freud the Parliamentary Under-Secretary of State for Welfare Reform, email address: freudd@parliament.uk and Eric Pickles MP in his role as Secretary of State for Communities and Local Government email address eric.pickles@communities.gsi.gov.uk

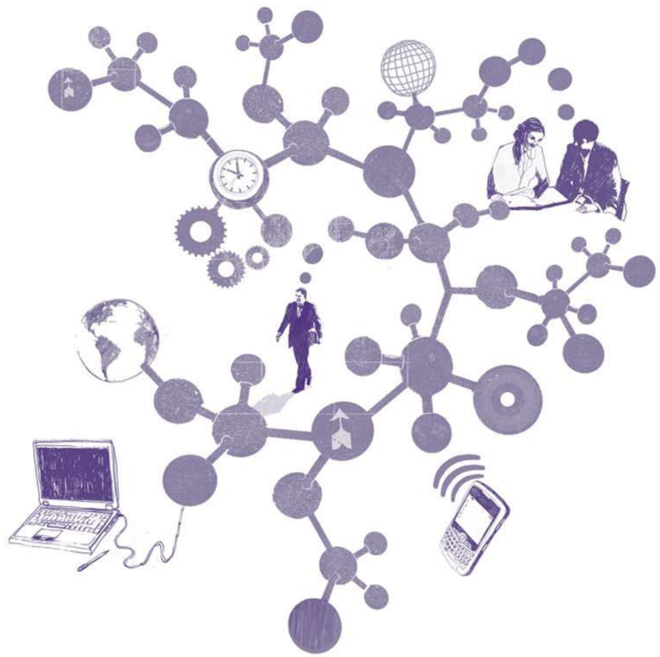
Yours sincerely,

Grant Thornton

Corporate Committee Update for London Borough of Haringey

Year ended 31 March 2014

November 2013



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Contents

The contents of this report relate only to those matters which 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 financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

This paper provides the Corporate Committee with a report on progress in delivering our responsibilities as your external auditors.
There are no changes to the reporting framework or accounting standards that needs to be reported to the Corporate Committee at this time. Where these are identified, we will continue to update and inform the Committee of these changes and their possible impact.

If you would like further information on any items in this briefing, any Grant Thornton reports, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at November 2013

Work	Comments
2012/13 Audit Certificate	We gave an unqualified opinion on the Council's financial Statements on 19 September 2013 in advance of the 30 September deadline.. We were not able to certify the 2012/13 audit as complete due to a potential objection raised on the accounts by a local authority elector . The Council continues to liaise with the local elector and provide them with documentation to satisfy requests. Once resolved we will be able to issue the audit certificate and close the 2012/13 audit. We will update the Committee on progress at the next meeting.
Audit Planning - 2013/14 financial year	Following the completion of the 2012/13 audit, we are now working with the Council to prepare for the 2013/14 audit. We will work with the Finance team throughout the year to support improvements to the accounts compilation and audit processes. Our initial planning visit for the 2013/14 audit is scheduled for January 2014. As part of this visit we will be updating our understanding of key financial systems through discussions with officers and testing controls in these areas. As part of our wider audit planning we are meeting with officers to ensure our work is focused on the key risks facing the Council in respect of its financial statements audit and Value for Money conclusion.
Grant certification work – 2012/13 financial year	We have completed the certification work for two of the four claims required. For both claims our work was completed by the statutory deadlines. The National Non-Domestic Rates and the Pooling Capital Receipts claims were certified without amendments. We are currently in the process of completing the certification of the Teacher's Pensions claim which requires a small amendment. We are also completing work on the Council's Housing Benefit and Council Tax Benefit claim and are on schedule to complete our testing by the 30 November 2013 statutory deadline. Testing of individual benefit awards within the claim has identified some errors which has resulted in additional testing which is currently being completed. We will issue our full certification report on completion of our work.

Progress at November 2013

Work	Comments
Welfare Reform Review	We are currently conducting a national review focussing on how organisations have managed the recent government reforms to welfare benefits. Our report will be based on completed questionnaires and interviews conducted at a number of our local government clients across the country. The report will be shared with the Council on publication.

Emerging issues and developments

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Financial Resilience In Local Government

Our review into Financial Resilience in Local Government will be released at the end of November. With financial austerity due to continue until at least 2017, our financial health review follows up on Tipping Point published in 2012 and considers key indicators of financial performance, financial governance, strategic financial planning and financial controls. The report will be shared with the Council on publication at the beginning of December 2013.

Local Government Pension s Governance Review

Our Local Government Pensions Governance Review presents the findings of our first review of Local Government Pension Schemes' governance arrangements and will give senior officers and pension committee chairs:

- an outline of governance and reporting best practice;
- an update on the significant changes to Local Government Pension Schemes; and
- an opportunity for clients to benchmark themselves against peers.

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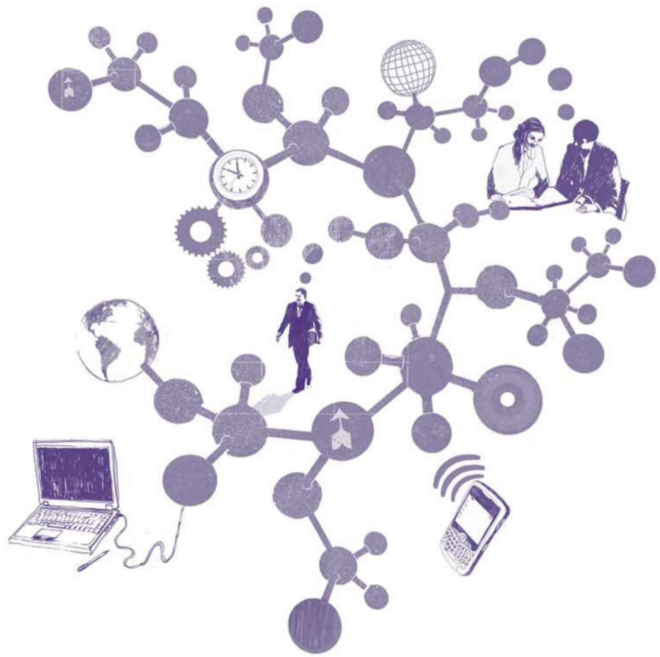
The Annual Audit Letter for London Borough of Haringey

Year ended 31 March 2013

October 2013



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Contents

Section 1: Executive summary

Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at London Borough of Haringey ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 19 September 2013.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 14 March 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the council's Whole of Government Accounts submission
- we have certified 2 grant claims and returns, both of which were certified without amendment. We are continuing to review 2 further claims that have November 2013 deadlines.

The audit has not yet been certified as closed as a local authority elector is still pursuing questions in relation to the accounting of parking income in the 2012/13 accounts.

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

The Council has made a considerable effort to improve the processes for preparing its financial statements and increased the level of commitment to supporting the audit process. This resulted in a notable improvement in the quality of the financial statements provided for audit and us providing the Council with an earlier opinion than previous years. The Council recognises that it can further build on these improvements ahead of the 2013/14 financial closure process and we recognise the investment in a new chief accountant post for 2013/14 to lead the Council's financial reporting arrangements.

The Council has a good track record of effective revenue budget management, and no significant adverse budget variances were reported across the services in 2012/13. In 2012-13 the General Fund net revenue budget underspent by £6.1 million (2% of budget) following a £4.7 million underspend in 2011/12. This has enabled the Council to marginally improve its levels of reserves in 2012/13, although the Council continues to hold a relatively low level of reserves (as a proportion of gross expenditure) in comparison to other similar councils.

Achieving a balanced financial position will be even more challenging in future years. The Council has closed the projected savings shortfall at the start of the 2013/14 period of £6.1 million during the 2013/14 planning cycle enabling a balanced budget to be set for 2013/14 that included £7.1 million additional savings. The shortfall for 2014/15 is £30 million. Closing this gap is the central objective of the revised Medium Term Financial Plan.

As part of meeting the significant future financial challenges the Council are proposing a new officer structure that will be matched by significant system changes and a programme of cultural change aimed at enhancing cross-Council and partner working and embedding robust corporate performance management arrangements. These processes will take time to implement and embed. During this transformation period, it will be important to ensure that the robust monitoring of systems and the financial position continues to ensure the proposed savings are delivered.

Acknowledgements

This Letter has been agreed with the Chief Executive and Director of Corporate Resources and will be presented to Corporate Committee on 26 November 2013.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts on 28 June 2013, in accordance with the national deadline. Working papers were made available from the start of the audit fieldwork, which commenced on 1 July 2013. The Council made a considerable effort to improve the processes for preparing their financial statements and increased the level of commitment to supporting the audit process. This resulted in a notable improvement in the quality of the financial statements provided for audit. The underlying data supporting the transactions and balances within the financial statements also proved to be more robust. As a result, we did not identified any material misstatements in the financial statements.

The overall quality of the working papers provided for audit is improving, but the quality remains variable. We will continue to work with the Council to support further improvements in this area which should, in turn, reduce requests for additional information and allow work to be completed more efficiently. The investment in a new Chief Accountant post should help to embed improvement and demonstrates the Council's commitment to improving it financial reporting.

Issues arising from the audit of the accounts

Our substantive testing of the balances within the financial statements did not identified any material errors or misstatements.

We identified misstatements within the Property Plant and Equipment, Debtors and schools cash balances on the balance sheet which are not material. The Council opted not to amend their financial statements for these misstatements as the amounts concerned were not material and did not impact on General Fund balances.

Annual Governance Statement

We concluded that the Annual Governance Statement and Explanatory Foreword were consistent with our knowledge of the Council, subject to a couple of minor proposed adjustments, which management incorporated into the final versions of the documents.

Whole of Government Accounts (WGA)

The Council submitted its draft WGA Consolidation Pack for audit on 2 September 2013 in line with our agreement. We were able to complete our work by the certification deadline of 4 October 2013.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Corporate Committee at the Council). We presented our report to the Corporate Committee on 19 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 19 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Section 3: Value for Money

Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience. The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control

Our work highlighted that the Council faces particularly significant challenges in regard to the reducing amount of central government funding it will receive in future years and in managing the social and financial implications of new government policies on welfare and local taxation. However, we concluded that the Council's current arrangements for achieving financial resilience are adequate and good progress has been made in implementing previous year findings from the financial resilience report.

Further details are provided in our Financial Resilience report issued in September 2013.

Challenging economy, efficiency and effectiveness

We reviewed whether the Council had prioritised its resources to take account of the tighter constraints it is required to operate within and whether it had achieved cost reductions and improved productivity and efficiencies.

Our work highlighted that the Council has a good track record of effective revenue budget management. In 2012-13 the General Fund net revenue budget underspent by £6.1 million (2% of budget). The Council has analysed the implications of the government settlement on areas such as grant funding in the Medium Term Financial Plan.

No significant issues were identified as a result of our work in this area.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Certification of grant claims and returns

Certification of grant claims and returns

Introduction

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

To date we have certified 2 claims and returns for the financial year 2012/13 relating to expenditure of £68.0 million. We are still working on the Teachers' Pension and Housing and Council tax benefit claims that have end of November 2013 deadlines.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Key messages

The key messages from our certification work to date are summarised in the table below. Further details will be provided in our certification report to be issued in December 2013.

Summary of the Council's arrangements

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	We have received the claims in accordance with specified deadlines.	
Accuracy of claim forms submitted to the auditor (including amendments & qualifications	The National Non Domestic Rates and Pooling of Capital Receipts returns were submitted without amendment and qualification. We have agreed a minor amendment to the Teachers' Pension claim with officers. Our initial testing of 80 cases within the Housing and Council tax benefit claim has identified more errors leading to overpayment in benefit than prior years. The Council are currently undertaking additional 40+ testing that will enable extrapolations of the errors to be calculated. The claim will be qualified and amended.	
Supporting working papers	Working papers provided have supported the balances within the claim	

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit

2012-13 fees

	Per Audit plan £	Actual fees £
Audit Fee	272,700	272,700
Grant certification fee	52,950	tbc
Total fees		

tbc – the final fee for our certification work will be confirmed in our certification work report to be issued in December 2013.

2011/12 Comparator Fees

	Per Audit plan £	Actual fees £
Council audit	454,500	486,500
Grant certification	90,500	86,896
Total audit fees	**545,000**	**573,396**

Fees for other services

Service	Fees £
None	Nil

Reports issued

Report	Date issued
Audit Plan	March 2013
Audit Findings Report	September 2013
VfM – Financial Resilience Report	September 2013
Annual Audit Letter	October 2013
Certification report	Proposed December 2013

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Haringey Council

Report for:	Corporate Committee	Item Number:	

Title:	Senior Management Review and Restructure Update Report

Report Authorised by:	Nick Walkley

Lead Officer:	Nick Walkley, Chief Executive and Head of Paid Service

Ward(s) affected: All	Report for Key/Non Key Decisions:

1. Describe the issue under consideration

1.1. At Corporate Committee on 19 September 2013 I, as Head of Paid Service, confirmed my intention to review and reorganise the Council's structures and to commence a period of consultation. This report provides:

- The themes of the responses to the consultation
- The conclusion and outcomes as a result of consultation
- Details of the new structure including the positioning of the key departments of the Council
- Details of the transition period and interim arrangements including governance and statutory responsibilities
- Outline of the approach to recruitment and selection
- Impact of the new senior management structure on other structures and a proposal as to how these will be dealt with.

2. Recommendations

That Members note this report.

Haringey Council

3. Organisation context

3.1. The report to the Committee on the 19 September 2013 detailed the proposals to review and restructure the senior management team arrangements and provided the rationale for the change. 'The Council faces a series of significant challenges and opportunities over the medium term. Responding to these will require a Council structure that is flexible, has the capacity to develop strategic options and also ensure *excellent outcomes and service delivery*'.

4. Consultation Activity and Responses

4.1. Consultation

Following the September committee meeting, wide ranging consultation and engagement took place with staff, members and partners. This included:

- Staff briefing sessions attended by over 400 staff.
- Newsletters and emails to all staff with a specific email mailbox set up to respond to any queries.
- Meetings with local Trade Unions.

The CE also wrote to a number of national and local stakeholders and attended a series of meetings to brief and discuss the proposals including with:

- Political groups and individual members
- The Secondary and Primary Heads Forums
- Local Safeguarding Children Board
- Public sector partners, through regular meetings and one-to-ones
- Homes for Haringey Board and separately its Interim Chairman accompanied by a tenant board member.
- The lead Partner of the External Auditor

All those who responded to the consultation will receive a formal response from or on behalf of the Chief Executive.

4.2. Issues raised in the consultation:

Overall, feedback on the restructure proposals was positive. It was recognised that structural change was needed to provide stronger leadership to the council, but as expected there were some issues raised about the detail and wider improvements that might be required at the council. These are detailed below:

Haringey Council

General Issues – culture and process

4.2.1. Cultural change

While most staff welcomed the proposals, some noted "we have been here before" and sought assurance on the officer and member commitment to wider change, and to a review of capacity and capability across the organisation. The development centres for staff at Assistant Director and Head of Service level have already begun to support such a change.

4.2.2. Pace

Some staff expressed concern about the pace of change and the associated risks. Some respondents were particularly concerned to ensure a rapid restructuring of the Council was not at the expense of equity and fairness.

This paper includes proposals for interim arrangements and the phasing of the implementation of parts of the restructure which address concerns about the disruption to important services. In addition, the engagement of an established HR partner to support the Development Centres and the proposed ring-fencing of suitable appointments should give internal candidates the maximum opportunity to succeed.

Specific roles and consequent changes

4.2.3. Children's Services

There were very few respondents who disagreed with the revised approach to children's services but issues were raised about the statutory requirements of the Director of Children's Services role. These will be addressed by:

- Appraisal of the Director for Children's Services (DCS) by the Chief Executive
- Agreement of clear terms of reference for the newly formed Statutory Officers Group, to further ensure the DCS has direct access to the CE, 151 Officer and Monitoring Officer to deal with safeguarding and other risks
- Completion and publication of a new Accountability Framework covering the DCS, Director of Adult Social Services and Director of Public Health to provide clarity on leadership and management accountabilities in the organisation.

There are a number of external changes impacting upon Children's Services, including the new Ofsted framework for inspection, as well as the direction of travel set out in the paper on the Haringey 54,000 change programme considered by Cabinet on 12 November. These necessitate a number of subsequent changes to the management of Children's Services.

Haringey Council

To ensure that leadership and management arrangements in place are both sufficiently robust to ensure effective management of the service and effective safeguarding practice, a number of changes will be proposed to structures within children's services. These will be reported to this committee.

Interim arrangements are already in place for a number of posts within the area to be covered by the new DCS structure. Further consultation will take place with staff in children's services over the coming weeks on a proposed structure.

4.2.4. Education and Schools

Head teachers and other stakeholders responded positively to the new structure, though some did raise a concern that it could potentially lead to a downgrading of the council's role in education. This is not intended to be the case and the strengthening of the new AD role, and the continued prominence given to education in the corporate plan should address these concerns. In addition it should be remembered that it is intended that the new structure will see greater delegation to all services to Assistant Director level.

The structures reporting to the AD, Schools and Learning will require some consequent changes and these will also be the subject of consultation over the coming weeks.

4.2.5. **Homes for Haringey/AD Housing**.

This proposal provided the greatest level of debate. Almost all respondents recognised the need to create a more unified housing service but differed as to how to achieve this. The Board of Homes for Haringey, welcomed the proposals, but some members of the Board were concerned that this should not be seen as a 'council imposition'.

Good progress has been made on addressing issues raised in relation to this proposal and a separate report, supported by the Cabinet Member and HfH Board will be presented to this Committee and Cabinet in 2014.

A key issue for resolution is whether the council or HfH should be the employer for the new joint post. In other boroughs with similar arrangements, the ALMO appoint the post-holder and second him/her back to the authority. Given the principles of an ALMO are to create arms-length capacity with accountability through a separate board, the arguments for such an arrangement are strong. The Board of HfH are of the view that if they can remain an accountable decision maker then it ought to be accountable for its officer leadership – the council of course retaining control through its ownership of HfH. These details, along with other governance changes will be the subject of a separate report to the next meeting of this committee.

Haringey Council

4.2.6. Commissioning

Partners and staff welcomed the creation of a commissioning function with appropriate corporate ownership. Where there were concerns they focused on the balance between procurement and commissioning and the potential for loss of insight as a result of too rapid change.

In the first instance the AD Commissioning will lead a joint Adults/Children's function which is already under development and further expansion and definition will only follow once these new functions are up and running. In addition, to manage this process further the Deputy Chief Executive will lead a Commissioning Board to bring together internal and external stakeholders on the development of commissioning in Haringey.

4.3. Strategy and Performance

As changes to the senior management team and operating model of the council are now being implemented there are consequences for line management arrangements of various teams across the organisation including the Strategy and Business Intelligence unit.

Proposals for new and interim line management arrangements for the 4 teams currently within the unit plus the Consultation Manager post and the Administration Assistant post will be circulated to the staff affected for consultation. Informal meetings have already taken place with staff and trade union representatives and further meetings have been offered to discuss the detail of the proposals.

4.4. Executive Assistants & Political Assistants

As changes to the senior management team are now being implemented, a review of the Executive Assistant support to be provided to the senior posts covered in this report will be undertaken.

This review will take place during December and January in consultation with affected staff and the senior leadership team. Likewise, there will be consultation on moving the PA post reporting to the Assistant Director of Corporate Governance.

Service and line management changes

Whilst it was not the intention of the September report to create the wholescale movement of service units around the council, the consultation raised a number of issues that should be addressed.

Haringey Council

4.4.1. Youth Offending Service

It is proposed that line management of the Youth Offending Service should transfer from CYPS to the new Head of Community Safety, once s/he is appointed. This is a move that was recommended by respondents to the consultation and makes sense given the growing capacity in the Community Safety Team.

4.4.2. Internal Audit

The September 26th Report proposed the strengthening of corporate governance arrangements and the creation of a Corporate Governance function. Some responses to consultation proposed that moving the line management of the Head of Internal Audit would further strengthen the role of the corporate governance function. It is proposed to make this change.

4.4.3 Scrutiny

As with Internal Audit, feedback indicated that aligning scrutiny with the Corporate Governance function might bolster its status and capacity to hold the Executive and Council to account. This is a common arrangement in many councils and it is proposed to consult with Scrutiny Members about such a change as part of this reorganisation.

Other changes:

4.5. Corporate Infrastructure

Programmes and Projects was another issue regularly raised, with wide support for a stronger corporate approach. Establishing a Corporate Infrastructure Service was therefore welcomed, but the title of the service was unpopular. Reflecting the functional descriptions of other services this will be known as the AD, Corporate Programme Office and Chief Information Officer .

4.6. Policy, Performance and Support

The review of Policy and Support and a review of the council's information and intelligence functions are now well underway. I expect any staffing implications to be reported to the January 2014 meeting of this committee.

5. Implementing the Structure

5.1. Affected Posts

In summary; eleven posts will be deleted, one post will have significant changes although will retain its existing title, three posts have some changes but not significant enough in terms of accountability to justify deleting and creating a new

Haringey Council

post, three posts will have a change to the post they report to, and ten new posts will be created.

Posts to be deleted from the Council's establishment list:

- Director of Corporate Services
- Director of Adult and Housing Services
- Assistant Chief Executive
- Deputy Director of Community Housing
- Deputy Director of Adults & Community Services
- Head of Legal Services
- Assistant Director of Front Line Services
- Haringey Efficiency and Savings Programme Director
- Head of Business Strategy and Information
- Head of IT
- Head of Organisation Development

New Posts to be established

- Chief Operating Officer
- Deputy Chief Executive
- Assistant Director Customer Services
- Assistant Director HR
- Assistant Director for Housing and Chief Executive of Homes for Haringey
- Assistant Director, Corporate Programme Office and Chief Information Officer
- Director of Adult Social Services
- Assistant Director for (Integrated) Commissioning
- Assistant Director (Social & Economic Regeneration)
- Assistant Director for Governance (Monitoring Officer)

Posts with Significant Change

- Director of Children's Services

Posts with some change

- Director of Place and Sustainability
- Assistant Director of Schools and Learning
- Deputy Director of Environmental Services & Community Safety

Posts with a change to reporting line

- Assistant Director of Finance
- Director of Public Health
- Assistant Director of Communications

5.2. Transition Period

As the Council moves to a new structure the priority is to ensure stability at a senior level and the continued delivery of the Corporate Plan and business as usual

Haringey Council

activities. Transition planning is in place to implement the new structure and this plan will help manage the impact of the new arrangements, ensure services to our residents are not affected and will enable the recruitment and selection process to conclude. This planning will also make certain that a detailed handover of objectives, budgets, risks and performance management can be completed to maintain business continuity.

In addition, once the senior leadership team are in place, it may be necessary for each Chief Officer to undertake a further review of their own organisation structures to ensure that they are fit for purpose to deliver the key objectives within the Corporate Plan.

5.2.1. Interim arrangements

The success of this transition plan is dependent on a number of key interim arrangements, which include:

- Appointment of an interim Chief Operating Officer which is a priority to manage financial risk, fulfil statutory responsibilities and establish and lead the operational aspects of the organisation. The process to make an interim appointment is underway and the recruitment of a permanent replacement will follow in the New Year.

- The Director of Strategy, who is currently on secondment from central Government, will act as the Deputy Chief Executive to provide immediate direction, stability and assurance to the organisation until the selection and recruitment process to this role is concluded. This process will commence immediately.

- The continuation of current interim arrangements for the Director of Children's Services role.

- The Director of Adults and Housing to remain in the organisation for an extended period to provide direction and implement the significant changes to Adults Social Care as health integration continues during 2014.

There will be a number of Assistant Director posts that will require interim arrangements until the recruitment and selection process is concluded.

5.3. Governance arrangements including statutory responsibilities

The new structure will, as noted above, require a review of the current governance arrangements and this will be undertaken by the Assistant Director for Corporate Governance during the transition period in readiness for Approval by the Council.

Haringey Council

This review will include establishing an Accountability Framework and a Statutory Officers Group that will obtain internal and external evidence that any risks of not achieving corporate objectives are being mitigated effectively. The group will also provide assurance to the Chief Executive that; governance arrangements are being followed by Chief Officers and senior managers, statutory functions are being discharged by Chief Officers, and internal systems and controls are working effectively.

Within the Council's Constitution there is requirement to identify Chief Officers and those posts allocated statutory responsibilities. The statutory roles with regards to corporate governance will be as follows:

Statutory Responsibility	Post
Head of Paid Service	Chief Executive
Finance Director – Section 151 Officer	Chief Operating Officer
Deputy Section 151 Officer	Assistant Director of Finance
Monitoring Officer	Assistant Director of Corporate Governance
Director of Children's Services	Director of Children's Services
Director of Adult Social Services	Director of Adult Social Services
Director of Public Health	Director of Public Health

5.4. Approach to Recruitment and Selection

There will be a phased approach dealing with a number of ring-fenced roles first, and the other new Assistant Director posts providing opportunity for internal applicants to be benchmarked with external candidates.

The new posts will be advertised internally and externally, and the selection process will include an assessment centre approach followed by panel interviews. This will give the organisation an opportunity to observe a number of skills and behaviours that may not have been required previously, and provides the applicant with an opportunity to demonstrate their current capabilities and future stretch potential. For internal candidates this process will provide them with valuable feedback from the information gathered during the process, and will support the creation of personal development plans.

Haringey Council

The table below shows the recruitment and selection timetable

Phase	Role
Phase 1 – ring fence December	Assistant Director Corporate Governance Assistant Director, Corporate Programme Office and Chief Information Officer
Phase 1 December – End of February	Deputy Chief Executive Assistant Director Customer Services Assistant Director Commissioning
Phase 2 January - End of March	Director of Children's Services
Phase 3 March - End of June	Director of Adults Social Care Head of Office
Phase 4 June – End of September	Chief Operating Officer

6. Background information

6.1. At the Corporate Committee on 22 January 2013 a report on Temporary Director/Senior Management Arrangements were discussed by the committee and it resolved:

- That the implementation of the proposals set out in the report as from 1 February 2013 be agreed
- That the creation of a temporary Director of Strategy and Performance post to be filled on a secondment basis be agreed
- That the creation of a temporary Deputy Director of Place and Sustainability post to be appointed from amongst the existing management team be agreed

6.2 At the Corporate Committee on 27 June 2013 a report on Temporary Assistant Director Arrangements were discussed by the committee and it resolved

That the following be noted:

- The temporary changes set out in this report at Assistant Director and Head of Service level to be enacted by 1 August 2013
- Proposal to enhance the programme management approach of the Council.
- That the formation of a Delivery Unit on a temporary basis from 1 July 2013 be *agreed*

Haringey Council

6.3.1 At the Corporate Committee on the 19 September 2013 the Committee received a report on Proposals to Review and Restructure of the Senior Management Team Arrangements. The recommendations included:

- For the Head of the Paid Service to implement consultation in line with the Councils restructuring policy with Councillors, staff, trades unions and partners on the proposals
- For the Head of the Paid Service to implement the proposals including any changes that were accepted as a result of that consultation
- Notwithstanding the above point, to provide a progress report back to this Committee in November.

7. Comments of the Deputy Chief Finance Officer and financial implications

The cost of the new senior management structure will be contained within existing resources. This is made possible by the deletion of the posts specified, and the transfer of existing budget provision for the continuing roles, as set out in this report.

Budget virements will be actioned during the transition period with the aim to complete these by the beginning of the financial year 2014-15.

8. Head of Legal Services and legal implications

The Head of Legal Services has been consulted in the preparation of this report.

At its meeting of 19 September 2013, the Corporate Committee delegated authority to the Chef Executive and Head of Paid Service to implement the proposals, including any changes to the senior management restructure that were accepted as a result of the consultation.

In reaching his final decisions on the structure, the Chief Executive will need to take into account the outcome of the consultation with staff and the findings of an equalities impact assessment.

The dismissal and appointment of staff as a result of the final proposals must comply with the Council's procedures regarding organisational change, together with the legal and constitutional requirements set out at Part 4 K of the Constitution.

9. Equalities and Community Cohesion Comments

An employee Equalities Analysis will be undertaken and this will look at the Equality impacts at four milestones.
The Milestones will be:-

- At the start of formal consultation on the proposal to review and restructure the senior management team – 20 September
- At the conclusion of consultation – This report will be available and published by the end of November

Haringey Council

- At the end of the recruitment and selection assessment process
- At the end of the final panel interview

10. Head of Procurement Comments

No implications

11. Policy Implication

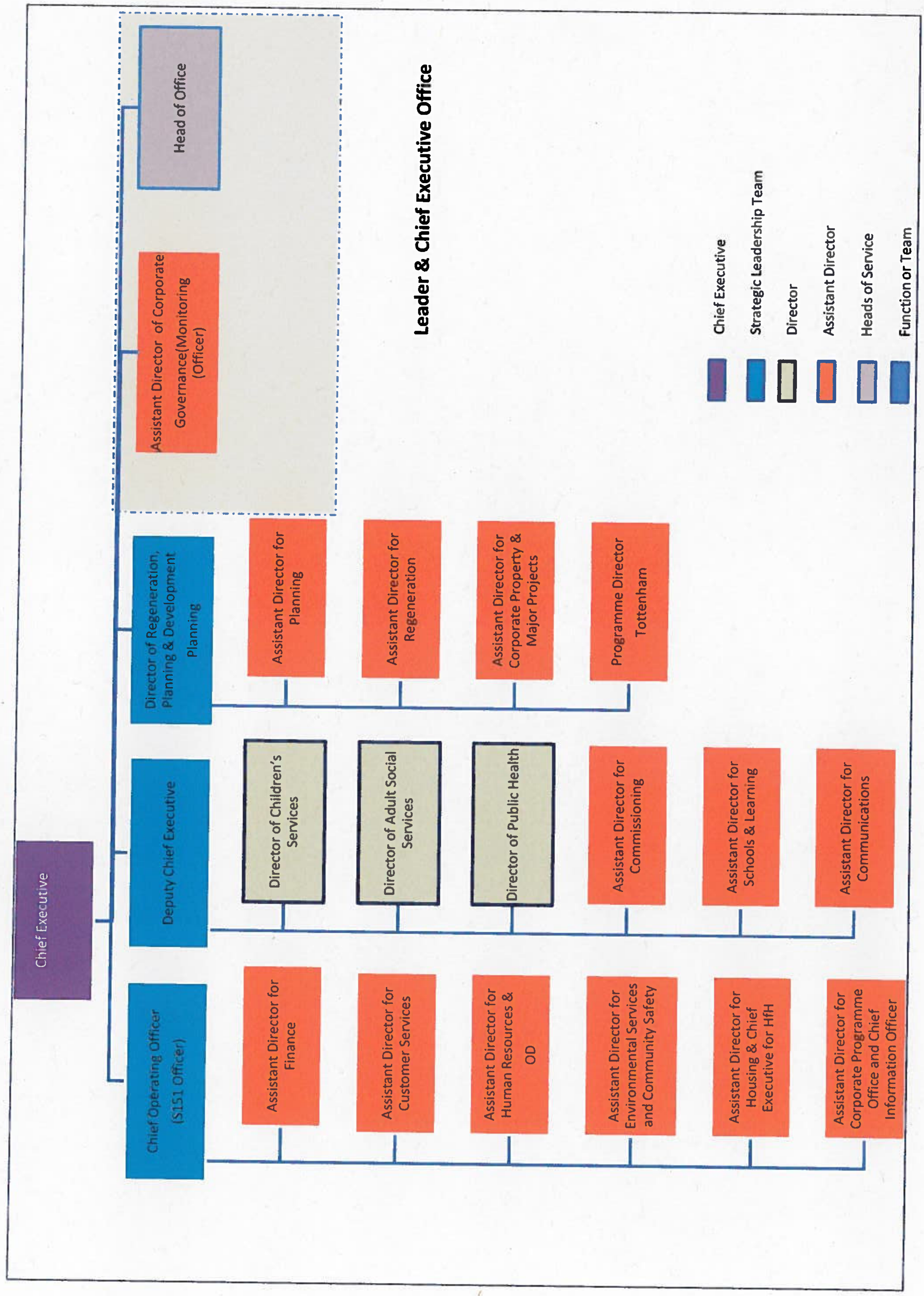
No implications

12. Use of Appendices

Appendix 1 – Structure

13. Local Government (Access to Information) Act 1985

Senior Leadership Team



Agenda Item 15

Haringey Council

Report for:	Corporate Committee 26 November 2013	**Item number**	

Title:	Delegated Decisions /Significant Actions/ Urgent Actions

Report authorised by :	Bernie Ryan Head of Legal Services

Lead Officer:	Helen Chapman (Tel. 020 8489 2615)

Ward(s) affected: Not applicable	**Report for Key/Non Key Decision:** For information

1. **Describe the issue under consideration**

   To inform the Corporate Committee of Non Executive delegated decisions and significant actions taken by Directors.

   To further advise of any urgent actions taken by Directors in consultation with the Chair of the Corporate Committee since the previous meeting.

   The report details by number and type decisions taken by Directors under delegated powers. Significant actions (decisions involving expenditure of more than £100,000) taken during the same period are also detailed.

2. **Cabinet Member Introduction**

   Not applicable

3. **Recommendations**

   That the report be noted.

Haringey Council

4. **Other options considered**

Not applicable

5. **Background information**

To inform the Corporate Committee of non executive delegated decisions and significant actions taken by Directors

The report details by number and type decisions taken by Directors under delegated powers. Significant actions) decisions involving expenditure of more than £100,000) taken during the same period are also detailed.

In keeping with usual practices and working procedures used for Cabinet, the attached report details urgent actions taken by Directors in consultation with Corporate Committee Chair since last reported. Part three, Section E, under the scheme of delegation paragraph 4.03, of the Council Constitution provides guidance on the action that needs to be taken on any urgent matter between meetings of the Cabinet, or any committee or Sub Committee of the Cabinet or the Council.

6. **Comments of the Chief Financial Officer and financial Implications**

Where appropriate these are contained in the individual delegations.

7. **Head of Legal Services and Legal Implications**

Where appropriate these are contained in the individual delegations.

8. **Equalities and Community Cohesion Comments**

Where appropriate these are contained in the individual delegations.

9. **Policy Implications**

Where appropriate these are contained in the individual delegations.

10. **Use of Appendices**

The appendices to the report set out by number and type decisions taken by Directors under delegated powers. Significant actions (Decisions involving expenditure of more than £100,000) taken during the same period are also detailed.

Haringey Council

11. **Local Government (Access to Information) Act 1985**

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

Information relating to any individual and information which is likely to reveal the identity of an individual.

Background Papers

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

Delegated Decisions and Significant Action Forms
Those marked with ♦ contain exempt information and are not available for public inspection.

The background papers are located at River Park House, 225 High Road, Wood Green, London N22 8HQ.

DIRECTOR OF CYPS

Significant decisions - Delegated Action 2013/14 – June to October 2013

♦ denotes background papers are Exempt.

No	Date approved by Director	Title	Decision
	20.9.2013	Delegated Authority for less than 20 members of staff: Restructuring of Governor Services	Proposed structure agreed
	1.9.13	Principal Social Worker (PSW) Practice Development Unit	Establishment change agreed

Delegated Action

Type			Number
8.02	Expansion of Two Year Olds Programme – appointment of consultant Provision of Advocacy Service for children and young people in Child Protection Conference Appointment of Head of Alternative Provision	£45,000 £20,000	1
9.07	Project Manager – Commissioning of High Quality Services to Education Supporting the Transformation of CYPS – appointment of partner Part-time Project Manager – Improving and Embedding Quality Assurance Developing Leadership Capabilities	£23,750 £99,995 £16,400 £44,450	

Signed:
Lisa Redfern-
Interim Director

Lisa Redfern
31.10.2013

DIRECTOR OF CHIEF EXECUTIVE SERVICE

Significant decisions - Delegated Action 2005/06

◆ denotes background papers are Exempt.

No	Date approved by Director	Title	Decision
2.	24/10/2013	Director of Corporate Resources Section 151 Officer	Payment of Lump Sum Death Grant from the Pension Fund of £123572.82
3.	01/10/13	Assistant Chief Executive	Renewal of Heywood Axis IT administration for 1 year with option to extend for a further year
4.			

Delegated Action

Type	Number

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of the Local Government Act 1972.

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of the Local Government Act 1972.

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