Haringey Council

Corporate Committee

TUESDAY, 28TH JANUARY, 2014 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 item 15 for unrestricted items and item 19 for exempt items).

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 - 12)

To consider and agree the minutes of the meeting held on 26 November 2013.

Note from the Assistant Director, Corporate Governance

When considering items 6, 7 & 8, the Committee will be operating in its capacity as an "Administering Authority". When the Committee is operating in its capacity as an Administering Authority, Members must have due regard to their duty as quasi-trustees to act in the best interests of the Pension Fund above all other considerations.

6. PENSION FUND INVESTMENT STRATEGY (PAGES 13 - 24)

Report of the Chief Financial Officer proposing changes to the Pension Fund's allocation to asset classes following discussions by the Pension Working Group and recommending that increased property investment is made to rebalance to the strategic allocation.

7. DRAFT PENSIONS FUNDING STRATEGY STATEMENT (PAGES 25 - 64)

Report of the Chief Financial Officer for the Committee to consider the draft Funding Strategy Statement and agree to the statement being circulated for consultation with the participating employers. A final report will be presented to the March 2014 meeting together with the actuarial valuation report as at 31^{st} March 2013.

8. NOVATION OF CBRE INVESTMENT MANAGEMENT AGREEMENT (PAGES 65 - 68)

Report of the Chief Financial Officer to seek Committee approval to the novation of the property management agreement to CBRE Global Collective Investors Limited.

9. TREASURY MANAGEMENT 2012/13 QUARTER 3 UPDATE (PAGES 69 - 78)

Report of the Chief Financial Officer to update the Committee on the Council's treasury management activities and performance in the quarter to 31^{st} December 2013.

10. TREASURY MANAGEMENT STRATEGY STATEMENT (PAGES 79 - 106)

Report of the Chief Financial Officer to present an update to the proposed Treasury Management Strategy Statement and Prudential Indicators for 2014/15 to 2016/17 to the Committee before it is presented to full council for final approval.

11. EXTERNAL AUDIT PROGRESS UPDATE (PAGES 107 - 122)

Report of Grant Thornton.

12. GRANTS CERTIFICATION REPORT - 2012/13 (PAGES 123 - 134)

Report of Grant Thornton.

13. INTERNAL AUDIT QUARTER 3 PROGRESS REPORT (PAGES 135 - 166)

Report of the Assistant Director, Corporate Governance, to advise the Committee of the work undertaken during the third 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.

14. DELEGATED DECISIONS, SIGNIFICANT ACTIONS, URGENT ACTIONS (PAGES 167 - 174)

Report of the Assistant Director – Corporate Governance and Monitoring Officer to inform the Corporate Committee of non executive delegated decisions, significant actions and any urgency decisions taken by the Chair.

15. ANY OTHER BUSINESS OF AN URGENT NATURE

To consider any items admitted at item 2 above.

16. 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 and 4, information relating to any individual and information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holders under, the authority.

17. EXEMPT MINUTES (PAGES 175 - 178)

To receive the exempt minutes of the Special Committees held on 28 November 2013 and 6 January 2014.

18. DELEGATED DECISIONS, SIGNIFICANT ACTIONS, URGENT ACTIONS (PAGES 179 - 180)

To consider exempt information pertaining to agenda item 14 above.

19. EXEMPT ITEMS OF URGENT BUSINESS

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Monday, 20 January 2014

MINUTES OF THE CORPORATE COMMITTEE
TUESDAY, 26 NOVEMBER 2013

Councillors	Adje, Amin (Vice-Chair), Diakides, Egan, Griffith, Jenks, Meehan (Chair), Whyte, Williams and Wilson
Apologies:	Cllr Khan
Also present:	Keith Brown Michael Jones Roger Melling John Raisin

MINUTE NO.	SUBJECT/ DECISION	ACTION BY
CC282.	**APOLOGIES (IF ANY)** Apologies for absence were received from Cllr Khan, for whom Cllr Egan substituted. Apologies for lateness were received from Cllr Adje.	
CC283.	**URGENT BUSINESS** There were no items of urgent business.	
CC284.	**DECLARATIONS OF INTEREST** There were no declarations of interest.	
CC285.	**DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS** There were no such items.	
CC286.	**MINUTES** Cllr Jenks advised that he had not received the publicity information requested at the previous meeting – officers would look into this and re-circulate the information as had been previously agreed. **RESOLVED** That the minutes of the meeting held on 19 September 2013 be agreed and signed by the Chair.	
CC287.	**PENSION FUND: ACTUARIAL VALUATION 31ST MARCH 2013** Douglas Green, Hymans Robertson, presented the draft actuarial valuation report as circulated. A training session on the actuarial valuation had been undertaken prior to the meeting, and members advised that they had found this useful. In response to questions regarding the table on page 35 of the agenda pack regarding the initial results for the total contribution rate, it was reported that these were notional, whole fund, figures only and that	

	actual rates for individual employers would be calculated subsequently, following separate modelling exercises. It was further noted that in setting contribution rates, stabilisation work would be undertaken in order to avoid sharp rate increases. The Committee asked how the Council compared with other local authorities; Mr Green advised that the Council's deficit position compared favourably to some others, and that the notional contribution rates indicated were in line with other local authorities. Kevin Bartle, Assistant Director of Finance, advised that setting contribution rates did not fall within the remit of the Corporate Committee, but would be undertaken as part of the wider budget-setting work, in discussion with the Actuary. Mr Bartle emphasised the significance of the stabilisation work referred to, and that this work meant that any increase in contribution rate for the Council would be limited to around 1 – 2%. It was noted that, indicatively, a 1% increase in employer contribution rate would equate to approximately £1m additional cost to the Council. It was noted that the Committee would be asked to consider the final version of the report at its meeting on 20 March 2014. **RESOLVED** That the assumptions and methodology used by the Actuary to determine the actuarial funding level and standardised employer contribution rate be agreed.	
CC288.	**PENSION FUND QUARTERLY UPDATE** The Committee considered the Pension Fund quarterly update report in respect of the three months to 30th September 2013. In response to a question from the Committee regarding the cost to the Fund of late payment of contributions, it was reported that if an annual return of 6% was assumed, the cost of late payments would be around 0.5% per month. It was reported that, in the event that an employer were persistently late and this was having a significant impact on the Fund, the Committee's view would be sought on how to address this issue. It was agreed that the cost to the Fund due to late payments over the period of a year would be calculated and circulated to the Committee for information. Members noted that Fusion had been mentioned for late payments in previous reports, and it was agreed that this matter would be escalated via the contract manager and the outcome of this would be reported back to the Committee. The Committee gave the view that all employers should be encouraged to pay via direct debit, in order to avoid the issue of late payments arising. The Committee asked about the reported underperformance of some of the funds against the benchmark and target. It was reported that the performance of CBRE had been affected by previous EU investment which had been a significant detractor, and that performance for Legal	ADF / HoT&P ADF / HoT&P

and General, which had been in line with benchmark for the individual funds invested in, was affected by the way in which the aggregate benchmark was calculated. Underperformance in private equity was reported as the result of the length of time it took to invest in such funds and the overall length of the investments, which could be 10-15 years. It was agreed that an update on the new investment positions, with performance expectations and targets, should be reported to the next meeting, now that the previously-agreed changes had been implemented.

The Committee asked about the reported meetings held by Legal and General under their 'other engagement activity report' on page 67 of the agenda pack, and whether it was possible to receive an update on the outcome of those discussions. It was agreed that officers would seek further information regarding this.

HoT&P

Further to the request at a previous meeting for the Committee to have a meeting with the fund managers, it was reported that officers were setting up a meeting in the first three months of the new year.

The Committee asked about the administration costs associated with fund management. It was noted that costs would be low for the Council's fund, due to the decision to move much of the fund to passive management. Officers would try to provide comparative information around administration costs, but it was noted that it was very difficult to compare such costs due to the significant differences in the way in which costs were calculated for different funds.

ADF / HoT&P

RESOLVED

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

CC289. LOCAL GOVERNMENT PENSION SCHEME IT SYSTEM - CONTRACT RENEWAL

The Committee considered the report on the proposal to enter into a contract with Heywood for a new IT system, as circulated in advance of the meeting.

In response to a question from the Committee as to its authority to award such a contract, the Chief Executive advised that the correct process for this decision had been discussed in advance and it had been felt that the Corporate Committee was the most appropriate decision-making body in this instance, because the function of the contract related to the Pension Fund. This position was supported by legal advice.

The Chief Executive reported that programmes such as this were very specific in nature, and that local authorities' options were extremely limited as a consequence – it was suggested that in the long term, it would be more effective for local authorities to fund the development of such programmes themselves in order to avoid such situations in the future. By way of illustration, it was reported that 90% of LGPS

	administering authorities used the system proposed. **RESOLVED** That the Corporate Committee agree to 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.	
CC290.	**TREASURY MANAGEMENT UPDATE** The Committee considered the Treasury Management quarterly activity and performance update as circulated. In response to a question from the Committee , it was confirmed that the Council did not use the Co-operative Bank but that some schools did have accounts with the bank. Those schools had been advised to speak with the bank to discuss any concerns with them, and it had also been suggested that schools may wish to open alternative accounts as a precaution. The Committee asked about the longer-term strategy for meeting its payment obligations and it was reported that the position was monitored very closely by officers and the Council's treasury management advisers Arlingclose – currently short-term borrowing was the most cost-effective strategy, but when the gap between short-term and long-term borrowing rates narrowed, the Council would consider taking the opportunity to enter into some longer-term borrowing at that time. The Committee asked about the average rate set out in the report at paragraph 16.4 of 5.44%, when elsewhere in the report the rate for short-term local authority borrowing was cited as around 0.4%. It was reported that the average rate was affected by older loans taken out at higher rates and it was reported that it would not be possible to repay these loans early without paying a premium. Paul Dossett, Grant Thornton, advised that in the past it had been possible to spread the cost of such premiums over a period of time, but that this was no longer permitted and the full cost associated with any such repayment would be required to be found out of the budget. In response to a question from the Committee, it was reported that the Council did not currently loan to other local authorities. Mr Bartle advised that this was an area in which significant savings had been made and were continuing to be made – the borrowing budget had been reduced by 1.5m in the last year. **RESOLVED** That the treasury management activity undertaken during the quarter to 30th September 2013 and the performance achieved be noted.	
CC291.	**TREASURY MANAGEMENT STRATEGY STATEMENT - 2014/15 - 2016/17**	

	The Committee considered the proposed Treasury Management Strategy Statement for 2014/15 to 2016/17, prior to it being scrutinised by Overview and Scrutiny Committee. It was noted that the report would be updated to reflect the agreed capital programme following the Cabinet meeting in December, and that the final report would be brought back to Corporate Committee on 28 January 2014 prior to final approval by Full Council. It was proposed that treasury management training with Arlingclose be arranged for the Committee before its January meeting. In response to a question from the Committee regarding the Enhanced Cash Fund proposals, it was reported that these did include an element of active fund management – further details on such funds would be covered in the January training. **RESOLVED** 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.	
CC292.	**INTERNAL AUDIT PROGRESS REPORT - 2013/14 QUARTER 2** The Committee considered the Internal Audit Progress report for quarter 2, 2013-14, as circulated. Anne Woods, Head of Audit and Risk Management, highlighted the briefing at Appendix E to the report on the DWP proposals for a Single Fraud Investigation Service, and the concerns regarding the impact this could have on local authorities' ability to tackle issues such as tenancy fraud. It was noted that the Local Authority Investigation Officers Group had lobbied the DWP regarding these concerns, but there had as yet been no response. The Committee noted that there had been three limited assurance reports this quarter. Particular concern was expressed regarding the Mayoral Community Infrastructure Levy, and the Committee asked why a recommendation had not been made that all CIL calculations should be reviewed, given that errors had been identified in three out of the ten cases sampled. With regard to the number of limited assurance reports, it was noted that the total number of audit reports completed in the quarter had been high, and the three identified therefore represented a small proportion. It was noted that the Interim Director of Children's Services was looking at the two limited assurance reports relating to CYPS, and it was anticipated that significant progress on implementation of these recommendations would be reported back soon. In respect of the CIL report, it was noted that the service had offered to review CIL cases and processes as a result of the audit findings, and it had therefore not been necessary to issue this as an audit recommendation. It was agreed that progress on implementation of the audit recommendations would be circulated to the Committee outside the meeting. The Committee asked about the timescales for suspension cases, and	HoA& RM

	how these could be closed down more quickly. The Chief Executive advised that there was a focussed effort on resolving suspension cases more quickly, as a consequence of which a number of service level and Member level hearings had been scheduled recently. The Chief Executive agreed to circulate in confidence details of the one outstanding suspension case exceeding 100 days' duration.	CE
	In response to a question from the Committee regarding how sub-letting of Council properties was identified and investigated, it was reported that there were a number of possible reporting mechanisms, and that potential cases were also identified through data-matching exercises and through the National Fraud Initiative. Any cases successfully prosecuted would be publicised in Haringey People and Home Zone.	
	The Committee asked about the number of outstanding suspension cases, and it was agreed that the Chief Executive would circulate a breakdown of ongoing cases to the Committee confidentially outside the meeting. It was noted that the number of ongoing cases had reduced, as a number of cases had been concluded since the production of the report. Concern was expressed regarding the over-representation of BAME staff in disciplinary cases, in response to which the Chief Executive advised that he shared these concerns and had initiated a piece of work to try and identify the issues and would report the findings of this work to the Committee in due course.	CE
	The Committee asked about the cost-effectiveness of engaging consultants for prolonged period of time – particularly with regard to the two single frontline services posts reported at the bottom of page 160 of the agenda pack. With regard to these two posts, the Chief Executive agreed to provide details of the Highways Contract post to the Committee outside of the meeting, and advised that for the other post, the possibility of entering into a contract for the Confirm software was being explored. The Committee asked whether it may be possible to offer permanent recruitment to the individual concerned, and it was agreed that this would also be explored.	CE / IHoHR
	In response to concerns raised regarding recent disciplinary cases relating to individuals not having the right to work in the UK, the Chief Executive agreed that recent cases had highlighted the need to address this issue, and reported that recruitment processes were being strengthened such that all job applicants to provide evidence of their right to work in the UK before any appointment was made.	
	The Committee expressed concern at the briefing regarding the SFIS. It was agreed that the Committee would ask the Chief Executive and Leader to write to the DWP regarding this issue, and that both political groups would ask their respective MPs to pursue this matter.	
	RESOLVED	
	i) That the audit coverage and counter-fraud work completed be noted; and the actions taken during the quarter to ensure audit	

	recommendations are implemented and that outstanding recommendations are addressed during the second quarter, 2013/14. ii) That the information received from the HR business unit be noted. iii) That the Council's proposed actions, set out in appendix E, in response to the DWP's statements on how SFIS will operate be agreed. In addition, that the Chief Executive and Leader be asked to write to the DWP regarding this issue, and that both political groups ask their MPs to pursue this matter.	
CC293.	**EXTERNAL AUDIT PROGRESS UPDATE** The Committee considered the external audit progress update from Grant Thornton, as circulated. The Committee's attention was drawn to the Local Government Pensions Governance Review, which was now available online. Hard copies of this document would also be provided to the Council for reference. **RESOLVED** That the content of the report be noted.	
CC294.	**ANNUAL AUDIT LETTER** The Committee considered the Annual Audit Letter for London Borough of Haringey, as circulated and introduced by Paul Dossett, Grant Thornton. In response to a question regarding the Council's level of reserves, Mr Dossett advised that there was a need for balance in this matter, but the key issue was that Council's should not be using their reserves to balance the budget – the level held should be for emergency use only. With regard to the wording provided around Value for Money, Mr Dossett advised that this indicated that, overall, the Council had materially sound processes in place to ensure VfM and that most local authorities were in the same position. The Committee thanked Grant Thornton for their report, and thanked Council officers for their work which had led to a positive audit assessment. **RESOLVED** That the content of the report be noted.	
CC295.	**SENIOR STAFF STRUCTURES UPDATE** Cllr Adje declared a personal interest in this item as a trade union branch secretary. This did not preclude him from participating in discussion of	

the item.

The Committee considered the Chief Executive's update report on senior staff structures, as circulated. The Chief Executive highlighted the following issues which had arisen through the consultation process; that there was an appetite for change among staff, that there was concern regarding the impact the changes would have on statutory functions of the Council, that there was a need to address the current organisational culture, staff wanted to be clear about their reporting lines and Members were keen to minimise the costs associated with the restructure. With regard to the last point, the Chief Executive assured Members that, wherever possible, staff being made redundant would be required to work their notice and that costs would be kept to a minimum as far as possible. It was noted that there would be a need for interim arrangements, with permanent recruitment processes for all posts following as quickly as possible. The post of COO would be the exception to this, as it was felt that the same post-holder should see through the budget and business planning process for the coming year, after which point the post would be permanently recruited to.

In response to questions from the Committee, it was confirmed that recruitment for senior posts would be subject to Member appointment panels, as set out in the constitution. It was also noted that there was a desire to retain talent and to recruit internally where feasible. With regard to interim arrangements, the Chair noted the resolution of the Committee made in June that "the Chair of Corporate Committee would be consulted when freelance consultants were engaged to cover chief officer or deputy chief officer positions or to head up special projects".

In response to questions from the Committee regarding the proposed deletion of the posts of Assistant Chief Executive and Head of Legal Services, it was reported that the current position of Assistant Chief Executive included a range of miscellaneous functions which had evolved over time and that replacing this post with the post of Deputy Chief Executive would regularise the functions of this post, and provide effective leadership across the Council's people-based functions. With regard to the deletion of the post of Head of Legal Services, the responsibilities of this post would be covered by the new post of Assistant Director for Governance, the post-holder for which would be a qualified lawyer.

The Committee welcomed the emphasis on minimising costs associated with the restructure, but asked whether the interim arrangements would incur additional costs, in response to which the Chief Executive advised that the reorganisation costs would be contained within current budgets. In response to a question from the Committee regarding contractual costs, the Chief Executive clarified that there was not a question of additional payments being made, but that for statutory officers, there was a need to make a judgement regarding the risks associated with allowing someone to work their notice and whether payment in lieu of notice should be considered.

The Committee asked whether the aim of the restructure was to reduce hierarchy within the organisation, in response to which the Chief Executive advised that the aim of the restructure was to create functional units, each with a recognisable area of responsibility. It was intended that each of these units would have a simpler line management chain and that assistant directors would have a greater level of accountability than at present. The development centre currently taking place for senior managers was one of the measures in place to support this process.

The Committee asked about the timescale for the appointment of the Assistant Director for Housing and Chief Executive of Homes for Haringey, and it was reported that HfH Board agreement was required for the timetable of this process. The Chief Executive reported that a report on the more general future of the housing service would be considered by the Cabinet in the new year – historically there had been some issues raised around HfH governance, and a governance review had been initiated to seek reassurance that these issues had all been resolved before the proposed changes were progressed. The Chief Executive advised that addressing the governance issues around HfH was essential, and that there was a need to clarify the role of the Board members in order that expectations were clear and that the scrutiny and accountability of the Board was strengthened.

In response to a question from the Committee regarding whether the Council would be the employing body for the housing post, with the post-holder then seconded to the ALMO, the Chief Executive advised that the arrangement could work with either party being the employing body. It was reported that the view of the HfH Board was that the ALMO should be the employing body, and that meetings would be taking place with the Chair of the HfH Board with the aim of identifying a way forward. Although it was emphasised that the Corporate Committee was the Council body with responsibility for employment matters, it was noted that HfH also had rights regarding the employment of its Chief Executive, and therefore there was a need for both parties to agree a way forward together.

The Chair expressed the clear view that the Council should be the employer of the joint housing post, and emphasised that the fact that HfH was an ALMO did not prevent HfH problems having a negative impact on the Council's reputation. It was felt that there was therefore a need for the Council to have oversight of the operation of HfH in order to meet its responsibilities to local residents, and that the housing post needed to be employed by the Council in order to achieve this. It was emphasised that there was a need for a clear, transparent, direction with regard to housing strategy, and the Chief Executive reported that this was the reason for the proposed report to Cabinet in the new year.

The Committee looked forward to future updates.

RESOLVED

That the content of the report be noted.

CC296.	**DELEGATED DECISIONS, SIGNIFICANT ACTIONS, URGENT ACTIONS** The Committee considered the report on delegated decisions, significant actions and urgent actions since the last meeting of the Committee. **RESOLVED** That the content of this report be noted.	
CC297.	**ANY OTHER BUSINESS OF AN URGENT NATURE** There were no new items of urgent business.	
CC298.	**EXCLUSION OF PRESS AND PUBLIC** **RESOLVED** That the press and public be excluded from the meeting for the following items as they contained 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).	
CC299.	**EXEMPT MINUTES** The Committee received the exempt minutes of the CEJCC meeting held on 2 July 2013 and the Special Committees held on 1 October and 23 October 2013, and considered the exempt minutes of the 19 September 2013. **RESOLVED** That the exempt minutes of the meeting held on 19 September 2013 be approved and signed by the Chair.	
CC300.	**LOCAL GOVERNMENT PENSION SCHEME IT SYSTEM - CONTRACT RENEWAL** The Committee considered exempt information pertaining to agenda item 8.	
CC301.	**DELEGATED DECISIONS / SIGNIFICANT ACTIONS / URGENT ACTIONS** The Committee considered exempt information pertaining to agenda item 15.	
CC302.	**ANY EXEMPT ITEMS OF URGENT BUSINESS** There were no new items of exempt urgent business.	

	The meeting closed at 21:20hrs.	

COUNCILLOR GEORGE MEEHAN

CHAIR

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Report for:	Corporate Committee 28th January 2014	Item number	

Title:	Pension Fund Investment Strategy

Report authorised by :	Assistant Director – Finance (CFO)

Lead Officer:	George Bruce, Head of Finance – Treasury & Pensions George.bruce@haringey.gov.uk 020 8489 8621

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

1. Describe the issue under consideration

1.1 This report proposes changes to the Pension Fund's allocations to assets classes following discussions by the Pension Working Group and also recommends that increased property investment is made to rebalance to the strategic allocation.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the strategic asset allocation of the pension fund is amended in accordance with appendix 1, and

3.2 That additional cash is made available to CBRE to enable the property portfolio to be rebalanced to 10% of the total pension fund and that disposals are made from the Blackrock equity portfolio to finance the additional property investments.

4. Other options considered

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4.1 None.

5. Background information

5.1 Following the appointment of Mercer as Investment Consultant the Pension Working Group discussed Mercer's model portfolio. Training on potential new asset classes was provided to the Pension Working Group at its December meeting. Agreement was reached to include allocations to multi asset credit and private debt within the investment portfolio, funded by a reduction in equities. If the strategy is approved the Statement of Investment Principles will be updated.

5.2 The Pension Working Group agreed to recommend to the Corporate Committee that additional funds of approximately £35 million are invested in property to increase the allocation to 10% in line with the current and proposed investment strategy.

6. Comments of the Chief Finance Officer & financial implications

6.1 A review of investment strategy is timely to reflect the results of the 2013 actuarial valuation. The proposed strategy targets a rate of return in excess of that assumed by the actuary and so if the strategy delivers the target it should enable the Fund to meet its long term funding aim. However given the high proportion proposed to be invested in equities, the returns may be volatile.

7. Head of Legal Services and Legal Implications

7.1 The Council as administering authority for the Haringey Pension Fund has the power to invest fund monies as set out in Local Government Pension Scheme (Management and Investment Funds) Regulations 2009.

7.2 The report proposes a change in asset allocation with a reduction in equity to fund an increase in property investment. The revised strategy must comply with the Pension Fund's Statement of Investment Principles and in line with the Pension Fund's investment strategy.

8. Equalities and Community Cohesion Comments

8.1 Not applicable.

9. Head of Procurement Comments

9.1 Not applicable.

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10. Policy Implications

10.1 None.

11. Use of Appendices

Appendix 1: Revised strategic allocations

Appendix 2: Report from Mercer on the revised strategic allocations (to follow).

Appendix 3: Draft minutes of the December 2013 Pension Working Group

12 Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Asset Allocation

13.1 The strategic Asset allocation of the pension fund is the target level of exposure to equities, bonds, property etc. The asset allocation is the main determinant of the expected future return and also the predictability / variability of future returns. The current strategy is dominated by equities and thus has a high expected return but also a high level of volatility. Following training provided to the December meeting of the Pension Working Group on potential new asset classes, a revised strategic asset allocation is set out in appendix 1. This involves reducing the equity allocation by 10% and introducing 5% allocations to multi asset credit and private debt.

13.2 Also attached is a report from Mercer supporting the revised asset allocations (appendix 2 – to follow) and draft minutes of the December Pension Working Group (appendix 3). Although the Mercer report (section 7) discusses the benefits of switching from index linked bonds to a leveraged index-linked fund, there is no recommendation as further training is required. Implementation proposals (section 8) will also be held over to the March meeting.

13.3 If the Committee agrees to the revised strategy, Mercer will be invited to present an implementation plan to the March Committee meeting detailing the impact of the changes on individual manager mandates and proposing the process and costs involved in appointing new fund

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managers. No action other than in respect to property (see below) will be taken until the implementation plan is agreed by the Committee.

13.3 Changes to the Investment Strategy require that the Statement of Investment Principles is updated.

14. Property Allocation

13.1 The property portfolio including earmarked cash is currently valued at circa £56 million representing 6.0% of the overall fund. This compares with a strategic allocation of 10% agreed in 2011. Rebalancing the allocation to 10% will require an additional allocation of approximately £35 million.

13.2 The Pension Working Group at its December meeting agreed proposals from Mercer (minute's appendix 3) to rebalance the property allocation. Mercer presented their most recent market outlook in which the current view of UK commercial property had been upgraded from neutral to attractive. Commercial property has not enjoyed the same recovery as equities in recent years and Mercer recommend that the fundamentals to investing in property are more favourable than they have been since the financial crisis. In particular they note:

"Property is now viewed as Attractive. We have increased our rating for UK property as a result of strengthening occupier trends such as improving vacancy rates, improving interest for space from tenants and a reduction in incentive packages on new leases. Against a background of relatively attractive capital values (in many regions) and affordable rents compared to the peak of the previous cycle, we view the medium term prospects for UK property as being attractive".

13.3 The fund's property Manager, CBRE, has developed a plan to invest the addition allocation both with existing and new funds over a period of 6 to 12 months. In line with the revised investment strategy, the additional investment will be funded from sales of equities from the BlackRock portfolio. Equities have enjoyed a strong year and the expected gains from maintaining an overweight position have moderated.

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Appendix 1

Suggested Recommendations to Corporate Committee in respect of the Pension Fund Strategic Asset Allocation

Strategic Asset Allocation Proposal

Asset Class	Actual Dec-13	Strategy Current	Strategy Proposed
Equities	75.9	70.0	60.0
Index Linked	13.8	15.0	15.0
Property	6.0	10.0	10.0
Private equity	4.0	5.0	5.0
Multi asset credit			5.0
Private debt			5.0
Cash	0.3		
	100.0	100.0	100.0

Appendix 3

Corporate Committee – Pensions Working Group
Minutes of meeting held on Monday 2nd December 2013
Present:

Councillor George Meehan (Chair)
Councillor Kaushika Amin
Councillor Jim Jenks

Michael Jones – Pensioners' Representative
Keith Brown – Admitted and Scheduled Bodies' Representative
Roger Melling – Employees' Representative

John Raisin- Independent Advisor
Steve Turner – Mercer (Investment Advisor)
Marc Devereux – Mercer (Investment Advisor)

Kevin Bartle – Assistant Finance Director
George Bruce – Head of Finance (Treasury and Pensions)

Representatives from Wellington, AMP and BlackRock.

1. Apologies

Councillor Adje
Councillor Wilson

2. Minutes of the meeting of 22 October 2013

The minutes were agreed.

3. Matters Arising from meeting of 22 October 2013

There were no matters arising.

4. Absolute Return Bonds - Wellington

Mercer reminded the Group that at the last meeting they had introduced a model portfolio with two new asset classes (absolute return bonds and private debt) and a more efficient approach to inflation protection with leveraged index linked bonds. The training was intended to give insight into each of these approaches.

Mercer noted that Wellington had a vast experience of managing bond mandates. They referred to absolute return bonds as multi sector.

Paul Skinner and Nicola Staunton joined the meeting. Paul is responsible for oversight of Wellington's fixed income mandates. Wellington referred to their structure as an amalgamation of boutiques. The advantages of multi sector credit compared to gilts and investment grade credit are:

- High income,
- Lower sensitivity to changes in interest rates,
- Diversification of sources of return, and

- Opportunities for value to be added.

It was acknowledged that returns would be more volatile and the portfolio less liquid than a corporate bond mandate. Compared with equities, the 15 year picture was of similar returns but half the volatility. Although volatility was less of a concern for long term investors it did impact on the tri-annual actuarial valuations and had a real impact on contribution rates.

Gilt and Investment grade bonds are valued close to historic lows in terms of yield (and highs in terms of price), with expectation that interest rates will increase. In an environment of increasing rates, mainstream bonds will perform poorly. The sectors that such funds target have less sensitivity to changes in interest rates due to the relatively short portfolio duration and in some cases a libor plus return such that they will benefit from rising rates. The sectors that are targeted are:

- High yield corporate bonds – pay substantially higher yields that sovereign debt.
- Bank loans – these are loans that banks wish to sell. Covenants tend to be stronger and there is greater protection being higher up the capital structure compared to corporate bonds. Wellington prefers to avoid interest rate risk by investing floating rate notes.
- Emerging Market Debt (EMD) – one of the biggest growth markets.
- High yield securitised debt – a pool of mortgages. The ability to look through to the individual constituents has improved since the credit crisis.

Can expect 3-4% additional return over investment grade credit in exchange for the higher credit risk. The borrowers' names include many familiar companies with highly leveraged balance sheets.

Emerging market economies had survived the credit crisis in much better shape than developed economies, with higher growth, lower debt levels, fiscal surpluses and generally low inflation.

Multi sector credit potentially offered superior risk adjusted returns to equities and other asset classes and a powerful way of smoothing returns. Tactically they offered higher income in a low income environment and protection against rising rates. Wellington suggested a standard mix of 1/3rd allocations to high yield corporate, bank loans and EMD although actual allocations would vary according to anticipated and actual market conditions. Spreads over developed market debt were around the mid point of their trading ranges and offered scope for capital appreciation. Bank loans were purchased selectively and although banks would offer a range of names only those names deemed attractive would be purchased.

Total returns of 5-7% were anticipated, being 3-5% yields, 1% from rotation of sectors and 1% from security selection. The portfolio would be transparent and available for scrutiny. Derivatives were used to manage exposures and achieve rapid sector shifts. Passive investing was not suitable for multi sector bond mandates as sector rotation is applied to capitalise on relative value amongst sectors. Fees would be around 0.5% p.a., less than active equities.

In summary, a multi sector approach seeks diversified exposure to credit. Different forms of credit are advantageous at different times. Multi sector bond managers should flex exposure to different types of credit according to market conditions.

Messrs Skinner and Staunton left the meeting.

5. Infrastructure Debt – AMP

Louisa Yeoman and Richard Lane joined the meeting.

AMP was one of Australia's most experienced infrastructure managers. The attractions of infrastructure dent included:

- Stable cash flows. Investments were stable service companies with predictable cashflows. Preferred investments were existing in use assets with track records rather than greenfield developments,
- Majority of investments were regulated companies that offered stability,
- Life spans of the assets were long, although the investments may be of shorter duration.
- Opportunities in mature markets e.g. North America, Europe (north not south) and Australia are preferred.
- Default rates have been low across economic cycles.

Investments were in floating rate instruments offering a libor plus return. Depending on the risk profile, returns are between low to high single digit. Using AMP performance as a basis, returns are uncorrelated with mainstream asset classes. The range of gross returns is from 5-6% for the lowest risk social infrastructure through to 10%+ for unregulated assets. Returns are less sensitive to economic conditions than corporate bonds.

Durations are around 5-7 years. Once purchased, assets are not traded. Investments are sourced from government privatisations, project refinancing and sales by banks (partially arising because of new regulatory requirements). Current structures have excessive senior debt and on refinancing additional equity or subordinately debt is required. Recently RBS and Irish banks have been selling assets, with the opportunity for discounts when buying non distressed assets from distressed sellers.

Returns achievable are close to the 10-12% gross from core infrastructure subordinated debt and/or equity and far above senior loans yielding up to 2.5% over base. The structure is a 10 year closed end fund. Cash will be drawn down as investments are purchased, with the aim to be fully invested earlier than the 4 year investment period. Any sales in the first 4 years will be reinvested after that sales proceeds will be distributed. Normally 10-12 separate assets are purchased for each pool or account. Fund sizes are targeted at around £400 million. Segregated accounts require a minimum of £50 million.

Fees are approximately 1%, although discounts are available for larger mandates. Fees are charged on invested rather than committed capital. The value of invested capital will be lower than the value committed for much of the fund life. Interest is paid to the fund and distributed from commencement, although the yield does grow.

Messrs Lane and Yeoman left the meeting.

6. Leverage Index Linked – BlackRock

Mercer introducing the topic of inflation protection confirmed that they preferred to see greater levels of protection in pension funds to protect against funding levels deteriorating. Over time they expect pension funds to seek more protection but the supply of index linked bonds to remain constrained. The BlackRock approach allowed funds to react quickly to opportunities to increase inflation protection.

Sarju Mehta and Christopher Head joined the meeting. BlackRock manage most of the Fund's index linked portfolio.

BlackRock explained the impact of changes in future inflation on the value of future pension liabilities. If future inflation increases by 1%, BlackRock estimate that Haringey's liabilities will increase in value by £135 million, while assets by only £25 million. In the long run equities may well offer inflation protection but that was not guaranteed particularly in shorter periods.

The UK had suffered periods of rising inflation and there were concerns that the government and Bank of England were currently prioritising growth over inflation. Increased inflation protection can be achieved from buying more index linked bonds and selling growth assets e.g. equities, but that will detract from the returns required to reduce the actuarial deficit.

An alternative approach was to increase the level of inflation protection by using a levered index linked gilt fund. This involved using current index linked bonds as collateral to borrow cash and purchase additional index linked bonds. The BlackRock fund used that to achieve inflation protection of 2.9 times the value of the initial index linked holdings.

The borrowing involved was short term. The debt interest payable was based on libor rates and was funded from the income derived from the additional bonds purchased. BlackRock confirmed that this arrangement was not dependent on the continuation of unusually low interest rates.

BlackRock estimate that Haringey currently has an inflation hedge protection level of 19% and that switching to their levered index linked gilt fund would increase the hedge ration to 55%. The impact on the deficit of a 1% inflation increase would fall £110 million to £60 million.

If the situation were reversed then a higher inflation hedging ration will reduce the benefit but there still will be a benefit and that will offer an opportunity to switch growth assets into liability matching assets.

The fees for the BlackRock pool are 15bp (0.15%) of the value of the assets invested, which equates to 5bp of the inflation protection. We currently pay 4pb of value / exposure.

The Working Group agreed that this was a complex proposition that required more training. Scenario based analysis to illustrate what happened in different situations will help. It would not be easy to explain this proposition to the Corporate Committee and approval may take longer than the two new approaches to credit. The strategy proposition to Corporate Committee should initially retain the 15% exposure to index linked gilts pending additional training.

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7. Property Allocation

Mercer explained that the currently property portfolio was below the benchmark weighting and that the timing after a period of strong equity returns was favourable to sell equities and increase the property holdings.

The Working Group agreed that this proposal should be recommended to Corporate Committee.

Members of the Working Group also recommended that the proposed new strategy in respect of bonds/fixed income refer to multi sector credit rather than absolute return bonds. It was noted that a strategy that involved less in equities would need careful explanation

8. Responsible Investing

At the last meeting, a request was made for a discussion on the funds policy for ethical investing, in particular it was noted that there was an increased interest in tobacco related holdings.

The fund’s current approach to ethical, responsible and similar issues is set out in the responsible investment policy and also the SIP, both of which are attached to the paper. The policy is:

- Companies that adopt good ESG practices will enhance their long term returns,
- The priority is generating the returns required to fund pensions,
- Both the Council and fund managers will use their influence to ensure that companies follow best practice.
- That it is not appropriate to exclude particular stocks or sectors.

The Haringey Legal team commented on the duties of the Administering Authority and the factors that should be considered:

- The need for diversification,
- The suitability of each investment
- Considering proper advice
- Ensuring the security, quality, liquidity and profitability of the portfolio,
- Obtaining a sufficient return to pay future pensions and
- A duty to invest in the best interest of beneficiaries.

The legal advice concludes that ESG issues are part of the process of determining financial returns and where the anticipated returns are similar, can be used to differentiate between competing opportunities.

As well as legal advice, we received a report from Aon Hewitt which is attached. They clearly state that ESG risks need to be managed via a dialogue between the Administering Authority, fund managers and portfolio companies. There preferred route is engagement rather than exclusion and Aon have concerns that excluding stocks will impact negatively on the members. Based on both the directly received legal advice and that of our previous investment consultant, our current policy as expressed in the SIP and Responsible Investment Policy remains appropriate.

Saying that the current approach is appropriate doesn't mean that we can't strengthen our engagement activities. There would be additional costs to operate a passive equity strategy excluding tobacco and thus to meet the best interests of beneficiaries test will require evidence that excluding tobacco will in fact enhance returns. We don't as yet have that advice, in fact the evidence is to the contrary. In recent years tobacco stocks have marginally added to returns.

The Chairman suggested that we take a wider look at the impact of tobacco and consider the public health issues. More work was required on the impact of a tobacco prohibition. It was also agreed that the current feedback on engagement by fund managers to the Corporate Committee lacked detail on the impact of the engagement, in particular what action had companies taken. This issue should be reconsidered at a future Working Group meeting.

9. Any Other Business

There was no other business.

10. Outcomes

a. The Officers in consultation with Mercer and the Independent Advisor to present a new Investment Strategy (Strategic Asset Allocation) to the Corporate Committee on 28 January 2014 recommending that the Committee reduce the allocation to Listed Equities and incorporating allocations to Multi Sector Credit and Infrastructure Debt. In principle the 15% allocation to Index Linked Gilts to be amended to a 10% allocation to Leveraged Index Linked Gilts. This amendment, however to be dependent upon approval following the provision of further training for the Corporate Committee in respect of Leveraged Index Linked Gilts.

b. Further training on Leveraged Index Linked Bonds be provided to members of the Pensions Working Group and Corporate Committee.

c. The next meeting of the Corporate Committee to be recommended to approve rebalancing the Actual Asset Allocation to 10% Property to be funded from the present overweight Listed Equity allocation to Blackrock.

d. Further consideration be given to the wider issues relating to tobacco related investments and that this issue be further discussed at a future meeting of the Pensions Working Group.

e. Improvements be sought to the reporting of the impact of engagement activities carried out by Blackrock and Legal & General.

Agenda Item 7

Haringey Council

Report for:	Corporate Committee 28th January 2014	**Item number**	

Title:	Pension Funding Strategy Statement

Report authorised by :	Assistant Director –Finance (CFO)

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 Funding Strategy Statement (annex 1) and agree to the statement being circulated for consultation with the participating employers. A final report will be presented to the March 2014 meeting together with the actuarial valuation report as at 31st March 2013.

2. **Cabinet Member Introduction**

2.1 Not applicable.

3. **Recommendations**

3.1 To agree that the draft Funding Strategy Statement is circulated for consultation with pension scheme employers.

4. **Other options considered**

4.1 None.

Haringey Council

5. Background information

5.1 The Pension Fund is required to maintain a Funding Strategy Statement (FSS) that sets out the basis on which contributions are set and in particular the plan to achieve and maintain sufficient assets to meet the pension liabilities. The FSS is normally updated prior to agreeing the tri-annual valuation report to ensure that the two documents are consistent. There is a requirement that changes to the FSS are consulted upon with scheme employers prior to implementation.

6. Comments of the Chief Financial Officer and financial implications

6.1 The FSS determines the basis on which contributions are paid by the Council and other employers. To protect the Council, assumptions and procedures are prudent but not excessively so. There is provision to offer stability of contributions to those employers such as the Council that are financially strong

7. Head of Legal Services and Legal Implications

7.1 The recommendation to consult with scheme employers is in compliance with the duties on the administering authority arising from Regulation 35 of the LGPS (Administration) Regulations 2008 (as amended). The obligation on the administering authority is to keep the FSS under review and make revisions if there is a material change (a) in policy which affects matters in the FSS or (b) to the current version under Regulation 9A of the LGPS (Management and Investment of Funds) Regulations 1998 statement of principles (i.e. the 10 Principles of Investment Practice set out in CIPFA Guidance Note issue No.5); and to publish any revisions.

7.2 In reviewing and making revisions the administering authority must:
(a) have regard to the CIPFA Pensions Panel Guidance on Preparing and Maintaining a FSS (Guidance Note issue No.6); and
(b) consults such person as is considered appropriate.

8. Equalities and Community Cohesion Comments

8.1 Not applicable.

9. Head of Procurement Comments

9.1 Not applicable.

10. Policy Implications

Haringey Council

10.1 None.

11. Use of Appendices

11.1 Appendix 1: Draft Funding Strategy Statement

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Background

13.1 The Local Government Pension Scheme (Administration) Regulations 2008 require all Pension Funds to publish a Funding Strategy Statement and keep it under review. The existing FSS has been reviewed in the light of the 2013 valuation and a consultation on the draft is required with employers in line with the regulations. Additional background information is included in Appendix 1.

13.2 The aim of the Funding Strategy Statement is to set out how the Pension Fund will seek to achieve full funding of pension liabilities. The policies set out in the document determine the basis on which the employer contribution rates are calculated for the Rates and Adjustments Certificate. The document is made up as follows:

Section 1 & 2	Introduction & purpose, including the objectives (1.5).
Section 3	This section sets out the how employer contribution rates are calculated. It also sets out the policies on stabilisation, deficit recovery periods and phasing of increases which are the tools that enable the Pension Fund to balance affordability with ensuring that the required contributions are received.
Section 4	This section describes how the funding strategy links to the investment strategy.
Appendices	These include: Regulatory framework Responsibilities of key parties Key risks and controls The calculation of employer contributions

Haringey Council

Actuarial Assumptions

13.3 The key changes from the existing strategy are:

a) Policies on academies have been introduced mainly reflecting previous decisions by the Committee. A change is proposed to the basis on which academies are initially allocated assets (Page 11, note g(c)). Currently, academies on establishment are funded with assets at the same overall funding rate as the Council. The proposed approach for new academies is to first allocate assets to liabilities for deferred and pensioner members. The remaining assets would be used to calculate an active member funding level, which in periods when the scheme is in deficit will be lower than the overall funding level leading to a lower initial asset allocation to academies. The proposal is to bring Haringey in line with the majority of council's and the approach assumed by Government. This change will have no impact on existing academies. The Government is currently consulting on the compulsory pooling of academies with Local Authorities and may regulate requiring a change in approach.

b) Increased formality of employer covenant assessment is implied (page 6, 2nd last paragraph).

c) Collecting deficits by fixed annual monetary amounts rather than a percentage of earnings is the norm.

d) Deficit recovery periods should decrease at future valuations e.g. the target date for full funding should not lengthen (page 10, note (c)).

e) The criteria for community admission bodies to join the scheme have been tightened (page 12, note (h)).

f) There is a commitment to annually monitor changes in the funding level (page 17, 4.5)

13.4 The next stage of the process is to consult with employers. Thereafter, in discussion with the Actuary a final version of the FSS will be presented to the March 2014 meeting.

Haringey Council

Appendix 1

Background Information

1. The attached Funding Strategy Statement has been prepared by London Borough of Haringey (the Administering Authority) to set out the funding strategy for the LB Haringey Pension Fund, in accordance with regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the revised guidance entitled "Preparing and Maintaining a Funding Strategy Statement" issued in October 2012 by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2. Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (the "Administration Regulations") provides the statutory framework under which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

• After consultation with such persons as it considers appropriate the LB of Haringey Pension Fund, the Administrating Authority, will prepare and publish it's funding strategy;

• In preparing the FSS, the Administering Authority must have regard to:-
a. the guidance issued by CIPFA for this purpose; and
b. the Statement of Investment Principles (SIP) for the Fund

• The FSS will be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

3. The LB Haringey Pension Fund is a defined benefit scheme. Benefits payable by the Fund are specified in the LGPS Regulations and the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

4. The required levels of Employee contributions are specified in the LGPS Regulations. Employer contributions are also determined in accordance with the Regulations (principally Administration Regulation 36) which require that an actuarial valuation is completed every three years by the actuary. Employer contributions to the LB Haringey Pension Fund should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of Employer contribution as possible. In accordance with Administration Regulation 36(6)(c) the actuary must also have regard to the FSS prepared by the Fund in carrying out the valuation.

London Borough of Haringey Pension Fund
DRAFT Funding Strategy Statement

January 2014

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Appendices

1 Introduction

1.1 What is this document?

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

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

1.2 What is the London Borough of Haringey Pension Fund?

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

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

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

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

There are also regulatory requirements for an FSS, as given in Appendix A.

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

- the LGPS Regulations;

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

1.4 How does the Fund and this FSS affect me?

This depends who you are:

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

1.5 What does the FSS aim to do?

The FSS sets out the funding strategy objectives, which are:

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

1.6 How do I find my way around this document?

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

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact George Bruce, Head of Finance: Treasury & Pensions in the first instance at e-mail address george.bruce@haringey.gov.uk or on telephone number 02084893726.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

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

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

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

2.3 How are contribution rates calculated for different employers?

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

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

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

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

2.4 What else might affect the employer's contribution?

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

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

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

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

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

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

The LGPS Regulations define various types of employer as follows:

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

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

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

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

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. Whilst this is true, it should also be borne in mind that:

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

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

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

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

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

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

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

These and associated issues are covered in this Section.

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

3.2 The effect of paying contributions below the theoretical level

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

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

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

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

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies and Designating Employers**		**Transferee Admission Bodies**
Sub-type	**Local Authorities**	**Academies**	**Colleges**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	Yes - see Note (b)	No	No	No	No
Maximum deficit recovery period – Note (c)	20 years	20 years	20 years	20 years	20 years	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Administering Authority			Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	3 years - Note (e)	3 years - Note (e)	3 years - Note (e)	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	Note (g)	n/a	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

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

In the circumstances where:

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

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

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

Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Council	Academy
Starting rate*	23.9% (as at 1st April 2014)	Calculated by the Actuary at date of academy conversion
Max contribution increase	+1% of pay	TBC
Max contribution decrease	-1% of pay	TBC

*In practice, contribution rates will show the future service rate based on a percentage of pay and the past service adjustment as a monetary amount.

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

Note (c) (Deficit Recovery Periods)

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

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

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

For academies where written notice has been served terminating their funding agreement with the Department for Education, the period is reduced to the period of notice (with immediate effect).

For Community Admission Bodies without a guarantor, the period will generally be equal to the average future working lifetime of their active employee members.

Note (d) (Deficit Recovery Payments)

The Administering Authority reserves the right to amend the deficit recovery payments between valuations and/or to require these payments in monetary terms (if they are paid in percentage of pay terms), for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Phasing in of contribution changes)

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

Normally the Fund will require the employer to pay at least its future service rate each year.

Employers which have no active members at this valuation will not be phased.

Note (f) (Regular Reviews)

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

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

Note (g) (New Academy employers)

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

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion.

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

Note (h) (New Admission Bodies)

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

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

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

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

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

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

Note (i) (New Transferee Admission Bodies)

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

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

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

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

ii) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

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

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

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

Note (j) (Admission Bodies Ceasing)

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

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

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

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

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

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

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

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy. The pooling of contributions is a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Haringey Council may be pooled with the legacy liabilities and assets following cessation of an employer. Schools generally are also pooled with the Council, however there may be exceptions for specialist or independent schools.

In general, the Administering Authority does not permit other pools, but will consider new proposals on a case by case basis.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

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

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

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

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

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

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April

2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Normally the payment is payable as a single lump sum and is not spread.

3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health insurance

If an employer holds satisfactory current insurance policy covering ill health early retirement strains the Administering Authority may agree to waive some or all of the ill health allowance set out in 3.7.

3.9 Employers with no remaining active members

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

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other employers in the Fund.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

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

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

3.11 Collection of contributions

To avoid loss of income and the administration cost of late payment of contributions, employers will be required to pay employer and employee contributions by way of direct debits in favour of the pension fund.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

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

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

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

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

4.4 How does this differ for a large stable employer?

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

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

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

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

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

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

4.5 Does the Fund monitor its overall funding position?

The Administering Authority annually monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value. It reports this to the Corporate Committee.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

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

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

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

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

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

a) A draft version of the FSS was issued to all participating employers in [DATE] for comment;

b) Comments were requested within [30] days;

c) Following the end of the consultation period the FSS was updated where required and then published, in [DATE].

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at [CLIENT URL];
- A copy sent by [post/e-mail] to each participating employer in the Fund;
- A copy sent to [employee/pensioner] representatives;
- A full copy [included in/linked from] the annual report and accounts of the Fund;
- Copies sent to investment managers and investment advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

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

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

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

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

A5 How does the FSS fit into other Fund documents?

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

These documents can be found on the web at [CLIENT URL].

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

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

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

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

- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

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

Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this

Risk	Summary of Control Mechanisms
	risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).

Risk	Summary of Control Mechanisms
	For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are

Risk	Summary of Control Mechanisms
	monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

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

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

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

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

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

D2 How is the Future Service Rate calculated?

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

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

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

[1] See LGPS (Administration) Regulations 36(5).
[2] See LGPS (Administration) Regulations 36(7).

a) Employers which admit new entrants

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

b) Employers which do not admit new entrants

To give more long term stability to such employers’ contributions, the “Attained Age” funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund’s actuary is required to report on the “solvency” of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

‘Solvency” is defined to be the ratio of the market value of the employer’s asset share to the value placed on accrued benefits on the Fund actuary’s chosen assumptions. This quantity is known as a funding level.

For the value of the employer’s asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer’s current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

D4 What affects a given employer’s valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer’s liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

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

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 1% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

The current assumption of 1% pa above RPI in effect captures the anticipated continued short term public sector pay restrictions, with an expectation of return to real salary growth in the long term thereafter.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation. This is a change from the 2010 valuation, when actuarial profession standard tables were adopted.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach is to maintain broadly the same life expectancies on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.
Funding level	The ratio of assets value to **liabilities** value: for further details (see 2.2).

Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer's annual contribution which relates to past service **deficit** repair.

Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% **funding level**, i.e. where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis** before any allowance for **stabilisation** or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Agenda Item 8

Haringey Council

Report for:	Corporate Committee 28th January 2014	**Item number**	

Title:	Novation of CBRE Investment Management Agreement

Report authorised by :	Assistant Director – Finance (CFO)

Lead Officer:	George Bruce, Head of Finance – Treasury & Pensions George.bruce@haringey.gov.uk 020 8489 8621

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

1. **Describe the issue under consideration**

1.1 This report seeks Committee approval to the novation of the property management agreement to CBRE Global Collective Investors UK Limited.

2. **Cabinet Member Introduction**

2.1 Not applicable.

3. **Recommendations**

3.1 That the Committee approve the appointment of CBRE Global Collective Investors UK Limited as fund manager for the pension fund property portfolio in place of CBRE Global Investors (UK Funds) Ltd (formerly called Ing Real Estate Investment Management (UK Funds) Ltd) by way of novation of the Fund's existing investment management agreement dated 28 February 2003.

4. **Other options considered**

4.1 None.

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5. Background information

5.1 The pension fund has a 10% allocation to property. This has been managed, under an investment management agreement dated 23 Feb. 2003, by Ing Real Estate Investment Management (UK Funds) Ltd, a company within the ING Group. During 2011 ING sold its shares in this company, its property management arm, to the CBRE Group. The ownership of the shareholding in the company changed hands and the company was renamed CBRE Global Investors (UK Funds) Ltd. However the legal entity/company that had the right to manage the scheme's property assets under the Fund's investment management agreement remained the same. Some of the ING staff remained with the company and therefore became part of the CBRE Group.

5.2 Although the change in ownership of the property manager was notified to the Committee in 2011, there was no change in the legal entity managing the Fund's property portfolio. As a result, there was no need then for a resolution agreeing a new appointment.

5.3 The CBRE Group are currently undertaking a reorganisation of their business structure and wish to change the legal entity that manages the Scheme's assets from CBRE Global Investors (UK Funds) Ltd to CBRE Global Collective Investors UK Limited. There will be no change in the staff involved in managing the portfolio. However, this change requires a formal transfer by way of a deed of novation of the Fund's investment management agreement to a different legal entity/company with the CBRE Group. The terms of the deed of novation have been agreed by the Council's Legal Team. As a new legal entity is formally being appointed, the Committee's approval is now required. However, the novation will not in practice have an impact on the manner in which the property portfolio is managed.

6. Comments of the Chief Financial Officer and financial implications

6.1 The CBRE group comprises a number of legal entities with integrated day to day operations. It is not unusual for structural reorganisations to occur. This change will not impact on the management of the property portfolio.

7. Head of Legal Services and Legal Implications

7.1 This report is recommending the transfer of the Fund's existing investment management agreement from one CBRE company to a

Haringey Council

new one. In law this amounts to an appointment of the new company to carry out the contract which is done by way of a deed of novation of the contract.

7.2 Under the Council's Contract Standing Orders (CSO), the novation of contracts relating to the Pension Fund and valued over £250K may only be approved by the Corporate Committee which has the powers of Cabinet in relation to such contracts (see CSO 3.03 & 9.07.1(d).

7.3 There are no significant legal reasons preventing the approval of the recommendation in paragraph 3.1 of this report.

8. Equalities and Community Cohesion Comments

8.1 Not applicable.

9. Head of Procurement Comments

9.1 Not applicable.

10. Policy Implications

10.1 None.

11. Use of Appendices

11.1 None.

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

Agenda Item 9

Haringey Council

Report for:	Corporate Committee 28th January 2014	Item number	

Title:	Treasury Management December 2013 quarterly Activity & Performance update

Report authorised by :	Assistant Director – Finance (CFO)

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 31st December 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 31st December 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 3rd 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 will be taken only when required for liquidity purposes with the preference being short term local authorities loans 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. 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 debt of £41.0 million has been repaid, of which £30 million is short term local authority loans and £11 million is maturing PWLB debt. During December £1.8 million was borrowed over a weekend to cover a temporary liquidity gap at an annualised rate of 0.4%.

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, NatWest and Barclays .The latter two being call accounts.

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 31ST December 2013. These include pension fund balances of £920,000, but exclude Icelandic balances, see paragraph 17.

:

Institution	Long Term Credit Rating	Amount (£m)	% of total deposits
BlackRock MMF	AAA	2.80	16.2
Deutsche MMF	AAA	1.00	5.8
Goldman Sachs MMF	AAA	2.50	14.5
RBS MMF	AAA	0.32	1.8
NatWest SIBA	A-	7.00	40.6
Barclays Treasury	A	3.64	21.1
Total		17.26	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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	March 2013	June 2013	September 2013	December 2013
Value weighted	2.5	3.3	3.50	5.58
Time weighted	2.9	1.9	2.11	4.96

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 as can be seen from the table below.

15.3 The table below shows the Council's deposits at 31st December 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 (£)
Deutsche	1	1,000,000
Goldman Sachs	1	2,500,000
RBS	1	320,000
BlackRock - sterling	1	2,200,000
BlackRock - Gov	1	600,000
Barclays Treasury	1	3,640,000
NatWest SIBA	1	7,000,000
		17,260,000

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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. The Barclays call account earns an initial rate of 0.25%, this rate is supplemented at year end by an additional 0.25% based on the average balance held on the account over the year. 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 approximately £14,000 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

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indicators and the current position on each of the treasury management limits.

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 December 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	16,340 8,069
Total Investments	26,650	24,409
Net Borrowing position	335,052	296,306

2. Security measure

	March 2013	December 2013
Credit score – Value weighted	2.5	5.58
Credit score – Time weighted	2.9	4.96

3. Liquidity measure

	March 2013	December 2013
Weighted average maturity – deposits (days)	4.0	1.0
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	December 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 Dec 2013
CAPITAL INDICATORS			
1	Capital Expenditure	£k	£k
	General Fund	47,811	52,824
	HRA	34,202	34,269
	TOTAL	82,013	87,093
2	Ratio of financing costs to net revenue stream	%	%
	General Fund	2.62	2.10
	HRA	12.94	11.83
3	Capital Financing Requirement	£k	£k
	General Fund	277,726	276,252
	HRA	271,096	271,096
	TOTAL	548,822	547,348
4	Incremental impact of capital investment decisions	£	£
	Band D Council Tax	8.77	14.22
	Weekly Housing rents	0.13	0.13

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No.	Prudential Indicator	2013/14 Original Indicator		Position / forecast Dec 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		56,442
7	Gross debt compared to CFR	£k		£k
	Gross debt	393,972		382,113
	CFR	548,822		547,348
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	√		√

Agenda Item 10

Haringey Council

Report for:	Corporate Committee 28th January 2014	**Item number**	

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

Report authorised by :	Assistant Director - Finance (CFO)

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 an update to the proposed Treasury Management Strategy Statement and Prudential Indicators for 2014/15 to 2016/17 to this Committee before it is presented to full Council for final approval.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the proposed Treasury Management Strategy Statement and Prudential Indicators for 2014/15 to 2016/17 at Appendix 1 is recommended to Council for approval as part of the Financial Planning Report.

4. Other options considered

4.1 None.

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5. Background information

5.1 The CIPFA Treasury Management Code of Practice ("The Code") requires all local authorities to agree a Treasury Management Strategy Statement ("TMSS") 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. The Code also requires that the TMSS is subject to scrutiny before being approved by full Council.

5.2 An initial draft of the TMSS for 2014-15 to 2016-17 was considered and agreed by the Corporate Committee on 26th November 2013. This was in advance of Cabinet agreeing the capital programme and so the Committee approved the TMSS subject to the figures being updated, including the Prudential Indicators.

5.3 Cabinet meet on 17 December 2013 and approved the capital programme enabling the figures in the strategy to be updated. The figures which have been updated are tables 1 to 9 in the strategy and prudential indicators 1 to 6 set out in Annex 1. No other changes have been made to the strategy.

5.4 All the figures in this document are based on current plans for the revenue budget and capital programme. This means they are subject to any further changes to these plans and, therefore, the statement will be updated for required adjustments before submission to full Council.

6. Comments of the Chief Financial Officer and Financial Implications

6.1 The figures in this report have been updated in line with the capital programme agreed by Cabinet in December 2013. These changes do not alter the strategy of maintaining low cash balances and borrowing only when required, which was agreed at the Committee's meeting on 26th November 2013.

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.

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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.

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: Revised Draft Treasury Management Strategy Statement 2014/15 – 2016/17.

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

Appendix 1

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. Subsequent changes to the revenue budget and capital programme will require adjustments to the TMSS and Prudential Indicators.

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
- 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 Actual £'000	31/03/2014 Estimate £'000	31/03/2015 Estimate £'000	31/03/2016 Estimate £'000	31/03/2017 Estimate £'000
General Fund CFR	277,726	276,252	281,727	269,122	256,227
Less: Share of existing External Debt & Other Long Term Liabilities	167,493	155,467	148,521	142,339	133,599
Internal Borrowing	110,233	120,785	115,785	110,785	105,785
Cumulative Net Borrowing Requirement	0	0	17,421	15,998	16,843

Table 1b: Treasury Position – HRA

	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	271,096	271,096	299,066	314,407
Less: Share of Existing External Debt & Other Long Term Liabilities	252,887	226,646	199,903	194,657	184,405
Internal Borrowing	18,209	44,450	44,450	44,450	44,450
Cumulative Net Borrowing Requirement	0	0	26,743	59,959	85,552

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	271,096	271,096	299,066	314,407
HRA Debt cap	327,538	327,538	327,538	327,538	327,538
Headroom	56,442	56,442	56,442	28,472	13,131

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	2016/17 Estimate £'000
General	41,317	47,811	52,824	46,563	34,307	31,140
HRA	40,673	34,202	34,269	63,310	67,728	51,660
Total	81,990	82,013	87,093	109,873	102,035	82,800

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

Table 4: Capital Financing

	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
Capital receipts	9,608	16,073	16,947	9,269	13,679	14,757
Other grants & contributions	7,194	13,130	8,536	9,896	9,589	8,478
Government Grants	27,278	15,278	16,180	32,307	9,726	10,464
Reserves / Revenue contributions	30,941	28,657	30,779	40,044	39,271	32,413
Total Financing	75,021	73,138	72,442	91,516	72,265	66,112
Borrowing	6,969	8,875	14,652	18,357	29,770	16,688
Total	81,990	82,013	87,093	109,873	102,035	82,800

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 £	2013/14 Approved £	2013/14 Projected Out-turn £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
Increase in Band D Council Tax	0.41	8.77	14.22	17.19	3.34	4.11
Increase in Average Weekly Housing Rents	0.09	0.13	0.12	0.17	1.85	1.60

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	2.10	2.16	2.32	2.34
HRA	13.18	12.94	11.83	11.13	11.19	11.27

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. 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	327,159	599,334	618,442	624,754
Other Long-term Liabilities	32,270	102,037	54,954	77,181	71,931	66,681
Total	393,972	671,293	382,113	676,515	690,373	691,435

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. The Operational Boundary and Authorised Limit apply at the total level. The breakdown between borrowing and other long term liabilities is for information only.

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	327,159	499,334	518,442	524,754
Other Long-term Liabilities	32,270	68,024	54,954	61,745	57,545	53,345
Total	393,972	537,280	382,113	561,079	575,987	578,099

4.4 The Chief Financial Officer 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 the 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 £30 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 9: 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 10: 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%	10%
10 years & within 20 years	0%	35%	6%
20 years & within 30 years	0%	35%	4%
30 years & within 40 years	0%	35%	19%
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 Chief Financial Officer, 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 Chief Financial Officer 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 1

Detail of Treasury Position

A: General Fund Pool

	31-Mar-14 Projected £'000	31-Mar-15 Estimate £'000	31-Mar-16 Estimate £'000	31-Mar-17 Estimate £'000
Existing External Borrowing commitments:				
PWLB	58,232	54,786	52,104	46,864
Market loans	42,281	42,281	42,281	42,281
Local Authorities				
Total External Borrowing	100,513	97,067	94,385	89,145
Long Term Liabilities	54,954	51,454	47,954	44,454
Total Gross External Debt	155,467	148,521	142,399	133,599
CFR	276,252	281,727	269,122	256,227
Internal Borrowing	120,785	115,785	110,785	105,785
Cumulative Borrowing requirement	0	17,421	15,998	16,843

B: HRA Pool

	31-Mar-14 Projected £'000	31-Mar-15 Estimate £'000	31-Mar-16 Estimate £'000	31-Mar-17 Estimate £'000
Existing External Borrowing commitments:				
PWLB	123,927	117,184	111,938	101,686
Market loans	82,719	82,719	82,719	82,719
Local Authorities	20,000	0	0	0
Total External Borrowing	226,646	199,903	194,657	184,405
CFR	271,096	271,096	299,066	314,407
Internal Borrowing	44,450	44,450	44,450	44,450
Cumulative Borrowing requirement	0	26,743	59,959	85,552

ANNEX 2

Summary of Prudential Indicators

No.	Prudential Indicator	2014/15	2015/16	2016/17
CAPITAL INDICATORS				
1	Capital Expenditure	£'000	£'000	£'000
	General Fund	46,563	34,307	31,140
	HRA	63,310	67,728	51,660
	TOTAL	109,873	102,035	82,800
2	Ratio of financing costs to net revenue stream	%	%	%
	General Fund	2.16	2.32	2.34
	HRA	11.13	11.19	11.27
3	Capital Financing Requirement	£'000	£'000	£'000
	General Fund	281,727	269,122	256,227
	HRA	271,096	299,066	314,407
	TOTAL	552,823	568,188	570,634
4	Incremental impact of capital investment decisions	£	£	£
	Band D Council Tax	17.19	3.34	4.11
	Weekly Housing rents	0.17	1.84	1.60

No.	Prudential Indicator	2014/15		2015/16		2016/17	
TREASURY MANAGEMENT LIMITS							
5	Borrowing limits	£'000		£'000		£'000	
	Authorised Limit	676,515		690,373		691,435	
	Operational Boundary	561,079		575,987		578,099	
6	HRA Debt Cap	£'000		£'000		£'000	
	Headroom	56,442		28,472		13,131	
7	Upper limit – fixed rate exposure	100%		100%		100%	
	Upper limit – variable rate exposure	40%		40%		40%	
8	Maturity structure of borrowing (U: upper, L: lower)	L	U	L	U	L	U
	under 12 months	0%	40%	0%	40%	0%	40%
	12 months & within 2 yrs	0%	35%	0%	35%	0%	35%
	2yrs & within 5 yrs	0%	35%	0%	35%	0%	35%
	5 yrs & within 10 yrs	0%	35%	0%	35%	0%	35%
	10 yrs & within 20 yrs	0%	35%	0%	35%	0%	35%
	20 yrs & within 30 yrs	0%	35%	0%	35%	0%	35%
	30 yrs & within 40 yrs	0%	35%	0%	35%	0%	35%
	40 yrs & within 50 yrs	0%	50%	0%	50%	0%	50%
	50 yrs & above	0%	50%	0%	50%	0%	50%
9	Sums invested for more than 364 days	0		0		0	
10	Adoption of CIPFA Treasury Management Code of Practice	√		√		√	

ANNEX 3

Arlingclose's Economic and Interest Rate Forecast

	Mar 14	Jun 14	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15	Mar 16	Jun 16	Sep 16	Dec 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	0.65	0.75	0.75	0.75	0.75	0.75	0.80	0.80
1 year LIBID	0.90	0.95	0.95	1.00	1.05	1.10	1.15	1.20	1.25	1.30	1.40	1.40
5 yr gilt	1.45	1.50	1.55	1.60	1.76	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 are 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

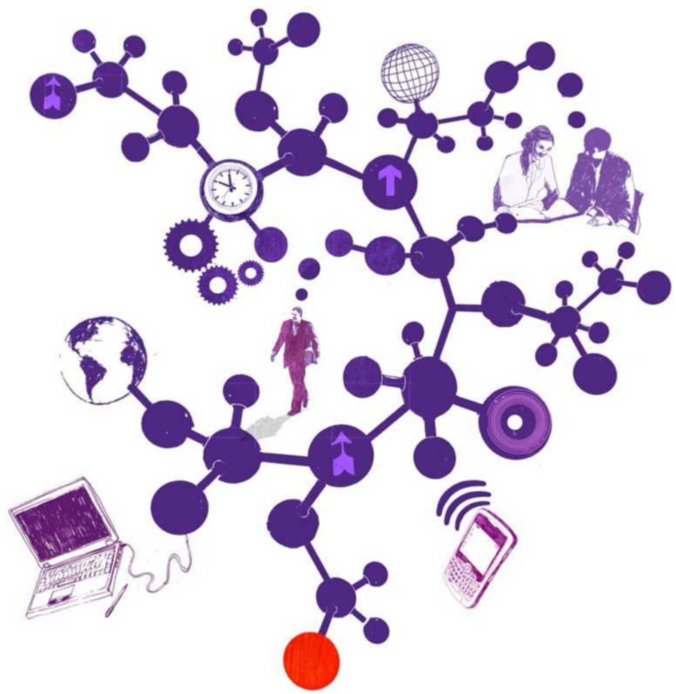
The counterparty list excludes MMF and ECF's as the name of the fund reflects the fund manager not the quality of the underlying holdings. Selection of MMFs and ECFs will be based on the criteria set of in Annex 4. The limit for any single MMF is £20 million and each ECF is £5 million.

Grant Thornton

Corporate Committee Update for London Borough of Haringey

Year ended 31 March 2014

January 2014



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Contents

Introduction

This paper provides the Corporate Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a London Borough Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Corporate Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?' '2016 tipping point? Challenging the current',

If you would like further information on any items in this briefing, 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 January 2014

Work	Comments
2012/13 Audit Certificate	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.
2012/13 Grant certification work	We have completed the certification work for the four claims required to be audited. For all claims our work was completed by the statutory deadlines. Our full certification report is a separate item on the agenda.
2013-14 Audit planning	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. We are attending the Council's financial accounts workshop in February. Our initial planning visit for the 2013/14 audit is scheduled for late 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.

Progress at January 2014

Work	Comments
2016 tipping point? Challenging the current	We have published our third annual report on whether English local authorities have the arrangements in place to ensure their sustainable financial future. The report validates as possible or probable the concept of a series of potential 'tipping point scenarios' identified in last years' report. Moreover, 79% of local authorities anticipate some form of tipping point in 2015/16 or 2016/17. Our report also suggests some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. Including a focus on generating additional sources of revenue income, such as, investments in the commercial property portfolio; increased commercialisation of services and local authority trading; and regeneration and inward investment to boost local economic activity. In addition, councils will need to continue to improve efficiency through, for instance, shared services, strategic partnerships and wider re-organisation.. Copies of the report have been provided to the Council. It is also accessible via the Grant Thornton website at : Grant Thornton - 2016 tipping point? Challenging the current

Emerging issues and developments

Local government guidance

Income from charging

In September, the Audit Commission published 'Income from charging: Using data from the VFM Profiles, September 2013'. The briefing provides an analysis of councils' 2011/12 income from charging, totalling £10.2 billion, and the contribution it made to service spending. It looks at the trends for different types of councils across broad service areas.

Key findings were:

- charging in 2011/12 funded 9 per cent of single-tier and county councils' overall service expenditure, and 20 per cent of district councils
- nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs
- there is great variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years. The contribution of charging to spending in 2011/12 varied most for district councils, with 2 to 87 per cent being generated through charges.

The Audit Commission chairman, Jeremy Newman, said 'There is no 'one-size-fits-all' formula for how councils set their local charging policies. We are providing information and tools for councils, and those who hold them to account, to help understand the important role that charging plays in councils' strategic financial management. The fact that some bodies derive more income from charging than council tax is neither good nor bad, but highlights the significant role charging plays in funding public services, and reminds councillors and electors to carefully scrutinise the approaches councils are taking.'

Emerging issues and developments

Local government guidance

Business rate collection

In April 2013, the government introduced a business rates retention scheme. Local authorities as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, authorities will keep half of the growth. In London 20% of the Business Rate growth goes to the Greater London Authority.

In October, the Audit Commission published 'Business rates: using data from the VFM profiles October 2013'. This briefing has been drawn from the Commission's Value for Money (VFM) profiles and shows an analysis of English council's collection rates and costs of collecting business rates.

The Audit Commission also highlights the following steps councils could take to maximise business rates:

- supporting existing business to do well and attracting new businesses to the area
- identifying and billing all business properties with a rateable value promptly
- using discretionary relief in an effective way, targeting businesses most in need
- preventing and tackling fraudulent claims for relief
- improving collection rates
- reducing collection costs.

Emerging issues and developments

Local government guidance

Preparing for the Health and Social Care Integration Transformation Fund

The 'Integration Transformation Fund' is a single pooled budget for health and social care services to work more closely together in local areas. The Integration Transformation Fund statement, signed on 8 August between the LGA and NHS England sets out the background and provides a roadmap for local areas to plan in the run up to the fund taking full effect from 2015/16. Authorities need to plan with their partners for access to the fund. In summary:

- £3.8bn will be available for 2015/16, with funds transferred mainly from existing CCG budgets
- in order to access and deploy the fund locally, CCGs and local authorities will need to prepare joint plans signed off by Health & Wellbeing Boards
- even though the funds are not available until 2015/16, local areas will need to work together to produce two year plans for 2014/15 and 2015/06. This is because access to £1bn of the funding in April 2015 is performance related, taking account of achievements in 2014/15
- ultimately Ministers will approve and sign off the plans, following review and assurance from NHS England

Emerging issues and developments

Grant Thornton

Local Government Pensions Governance Review

This report presents the findings of our first review of Local Government pension schemes' governance. Based on comprehensive research with pension fund senior officers and supported by insights from pension fund auditors, our report shows that there is a wide variety of practice across the UK:

- 70% of funds operate with a single pension committee, but those that use sub-groups are able to act more quickly, with a greater focus on the strategic management of the fund, while ensuring the important aspects of operation are given proper consideration
- only 25% of funds provide their pension committee with regular (more than once a year) reports on key risks affecting the fund
- only 22% of funds are implementing action plans resulting from the CIPFAs knowledge and skills framework
- 60% of pension funds benchmark their costs and have reduced them in recent years, but reporting to pension committees on administration costs and savings is under-developed
- there are lessons to be learnt from funds that have worked collaboratively to reduce costs, share expertise and improve services.

The report also provides an outline of governance and reporting best practice and an update on the significant changes to Local Government pension schemes.

If you have any queries on governance, talk to your audit manager to see how Grant Thornton could help.

Emerging issues and developments

Accounting and audit issues

Simplifying and streamlining the presentation of local authority financial statements

Both HM Treasury and CIPFA/LASAAC have recently consulted on how to streamline and simplify local authority financial statements. In our response, we set out our view that streamlining is a collaborative process involving standard setters, preparers of the accounts and auditors. This requires a much needed change in culture and attitude from the accounting and auditing profession as a whole.

However, there is much that can be done now. In his October article in Room 151, the on-line local authority finance publication, Graham Liddell, Grant Thornton's National Technical Lead sets out the practical steps local authorities can take to:

- learn the lessons from 2012/13 to improve the preparation and audit of the financial statements for future years
- de-clutter their accounts using the previous year's financial statements as the starting point

Graham notes that Grant Thornton has been working with a range of local authorities to achieve these goals. One council audited by Grant Thornton succeeded in producing a set of financial statements in 2012/13 that were are only half the length of those for 2011/12 and were much easier to follow.

The article can be accessed at: http://www.room151.co.uk/blogs/improving-the-preparation-and-audit-of-your-financial-statement/

Emerging issues and developments

Accounting and audit issues

Consultation on Local Authority Accounting Code of Practice for 2014/15

CIPFA/LASAAC's consultation on the Local Authority Accounting Code of Practice for 2014/15 closed in October.

In our response we noted that the complexity of international financial reporting standards (IFRS) inevitably means that it is increasingly difficult to construct a Code that is comprehensive, of reasonable length and fit for purpose. We suggested that the Code of Practice follows the approach adopted by the Treasury in the Financial Reporting Manual under which bodies are required to follow the relevant accounting standard other than where there are specified formal adaptations or interpretations. This would result in a much shorter simpler Code with local authorities referring directly to the underlying standards themselves. This approach is consistent with that adopted in the NHS, where the accounting manuals do not seek to repeat text from accounting standards.

In respect of the some of the other key consultation issues, our views were:

- IFRS 13 - the Code should follow the principles of IFRS 13 as closely as possible. We regard it as important that there is a common application of fair value by all bodies preparing accounts under IFRS.
- Infrastructure assets - we supported the adoption of IFRS based accounting for infrastructure assets. We recognise the practical difficulties in doing this and have offered to work with CIPFA/LASAAC and local authorities to help overcome these difficulties.
- Schools - we emphasised the importance of addressing the accounting issues for schools as a matter of priority, particularly because this is an area for which the Whole of Government Accounts are currently qualified.

Emerging issues and developments

Accounting and audit issues

Property plant and equipment revaluations

The 2013/14 Code of Practice on Local Authority Accounting changes the requirements for the frequency at which authorities are required to carry out valuations of property plant and equipment. Previously the Code permitted valuations to be carried out on a rolling basis over a maximum of 5 years. The 2013/14 Code now restricts this option by requiring:

- revaluations to be sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period
- items within a class of property, plant and equipment to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

However, the Code permits assets within the same class to be revalued on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. There is no definition of 'a short period' but the Code's requirement to avoid reporting a mixture of costs and values as at different dates suggests that to comply with the Code, all assets within a particular class should be valued within the same financial year.

Emerging issues and developments

Accounting and audit issues

Public briefing on the Local Audit and Accountability Bill

In September, the Audit Commission published a briefing note on the Local Audit and Accountability Bill. The Bill is currently going through Parliament.

The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are:

- collective procurement arrangements
- audit appointment arrangements
- the National Fraud Initiative
- small bodies
- supporting accountability to Parliament and the public
- reporting on arrangements to secure value for money
- updating the legislative framework governing local public audit.

Challenge question:

- Have you considered how the proposed audit arrangements under the Draft Local Audit Bill will affect you?

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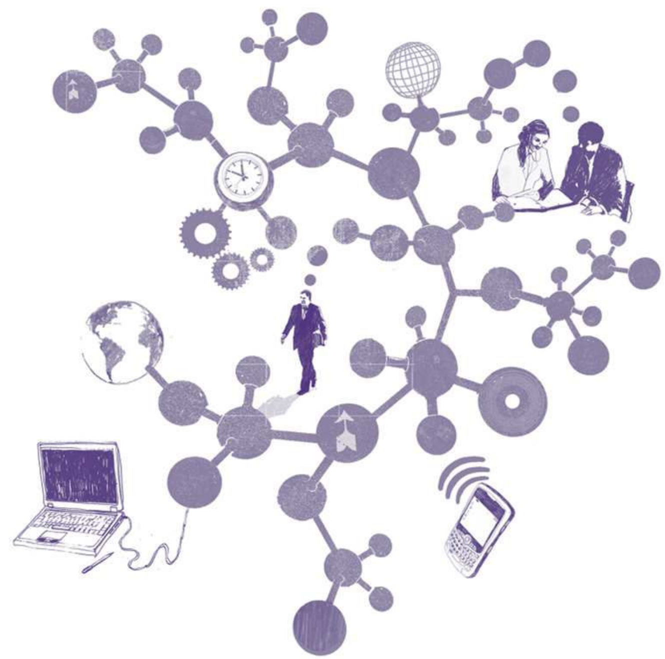
Certification report 2012/13 for London Borough of Haringey

Year ended 31 March 2013

January 2014



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Contents

Section 1: Executive summary

Executive summary

Introduction

We are required to certify certain of the claims and returns submitted by London Borough of Haringey Council ('the Council'). This certification typically takes place 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.

We have certified four claims and returns for the financial year 2012/13 relating to expenditure of £390.7 million.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

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.

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Certification Plan issued to the Council in September 2013.

Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	All claims were submitted and certified by the specified deadlines.	
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	Two errors were identified on the Teachers' Pensions return which were corrected. The draft return did not agree to the payroll system and the March 2013 contributions for an academy school were incorrectly included in the return. Total amendment reduced contributions payable by £35k. The Housing and Council Tax benefits claim was qualified as in previous years. However, there was an increase in the number of errors identified from our initial sample of 80 cases from the previous year which led to testing an additional 600 cases. The Council undertook this additional testing, but we were required to review and re-perform this work. In addition, the Council undertook testing on all cases within two balances on the claim which we were required to review. The value of the additional work we had to undertake which was not required in 2010/11(the indicative fee is based on the 2010/11 year) is £12,510. The amendment to the claim reduced the amount of subsidy claimed by £14k.	
Supporting working papers	Working papers provided were of a good quality and were sufficiently detailed	

Certification Fees

The Council's total indicative fee, as set by the Audit Commission was£52,950. This was based on the 2010/11 certification fee. However, we are proposing the following variations to the fee based on:

- Removal of the single programme grant from the national certification requirement. This is a reduction in the fee of £900.
- An increase to the Housing and Council tax Benefit Subsidy return due to additional work having to be performed which was not required in 2010/11. The value of the additional work is £12,510.

The revised fee for our certification work is £64,560. This compares to the 2011/12 fee of £79,861 for certification of the same returns

The way forward

We set out recommendations to address the key messages above and other findings arising from our certification work at Appendix B

Implementation of the agreed recommendations will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

Acknowledgements

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP
January 2014

Section 2: Results of our certification work

Results of our certification work

Key messages

We have certified four claims and returns for the financial year 2012/13 relating to expenditure of £390.7 million.

The Council's performance in preparing claims and returns is summarised below:

Performance measure	Target	Achievement in 2012/13		Achievement in 2011/12		Direction of travel
		No.	%	No.	%	
Claims submitted on time	100%	4	100	5	100	
Claims certified on time	100%	4	100	5	100	
Claims certified without amendment	100%	2	50	3	60	
Claims certified without qualification	100%	3	75	4	80	

This analysis of performance shows that:

- Claims are consistently submitted on time.
- Claims are consistently certified on time
- Two claims were amended and one claim was qualified in 2012/13. The amendments to the claims were not significant. It should be noted that the Housing and Council tax benefit claim is complex and it is not unusual for this claim to be subject to qualification

Details of the certification of all claims and returns are included at Appendix A.

Significant findings

Testing of an initial sample of 80 individual benefit cases identified significantly more errors than previous years. Errors were identified on the calculation of the claimants income including earned income, child tax credits, childcare costs and pensions. These errors subsequently impacted on the amount of benefit awarded to claimants. We also identified issues with the coding of overpayments particularly within Council Tax benefits. As a result of these findings the Council were required to undertake 15 sets of 40 plus testing (equating to an additional 600 cases) which focus on the errors identified. We were required to review and re-perform this testing. The Council are investigating the reasons for the increase in error rate this year.

The additional testing identified the same errors, but the value of the errors were not as significant as those identified in the original sample of 80 cases. We have extrapolated the findings of all the cases tested over the populations and included these in our Qualification Letter which we agreed with the Council.

The result of the extrapolations was that the Council remained below the Local Authority Error lower threshold indicating that there is unlikely to be any impact on funding received from the Department for Work and Pensions.

The number of errors impact on the amount of additional testing that is required to certify the claim and also potentially impact on the subsidy due to the Council. Therefore, we have raised a recommendation for improvement within the action plan at Appendix B

Appendices

Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value (£)	Amended?	Amendment (£)	Qualified?	Comments
Housing and council tax benefits scheme (BEN01)	306,359,401	Yes	£14,346	Yes	Increase in errors associated with calculating claimants income affecting benefits paid to claimants.
National non-domestic rates return (LA01)	59,625,772	No	n/a	No	
Teachers' pensions return (PEN05)	16,364,924	Yes	£34,776	No	The draft return did not agree to the payroll system and the March 2013 contributions for an academy school were incorrectly included in the return.
Pooling of housing capital receipts (CFB06)	8,338,021	No	n/a	No	

Appendix B: Action plan

Priority
High - Significant effect on arrangements
Medium – Some effect on arrangements
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Determine the reasons for the increase in errors identified within the Housing and Council Tax benefits claim and undertake additional training where necessary.	High	An Improvement Board has been established and a Programme commenced to identify and address performance issues across designated areas of the Service (including those around the assessment and administration of benefits claims). This is also being underpinned by enhanced training and development measures, across all relevant staff. The Improvement Programme is facilitated by External consultants (Indigo Edge) and the Board incorporates the senior Service Management Team as well as representation from Corporate Finance. The performance issues leading to the errors identified during the 2012/13 audit are a specific consideration for the group.	On Going. Head Revenue and Benefits & Customer Services.

Appendix C: Fees

Claim or return	2011/12 fee (£)	2012/13 indicative fee (£)	2012/13 actual fee (£)	Variance (£)	Explanation for significant variances
Housing benefits subsidy claim	64,013	39,650	52,160	12,510	Increased fee resulting from requirement to undertake 40+ testing on 15 different areas of the claim and 2 cases of additional work to confirm on specific errors for adjustment to the claim
National non-domestic rates return	5,650	6,470	6,470	0	No additional fee required
Teachers' pensions return	5,125	2,260	2,260	0	No additional fee required
Pooling of Housing Capital Receipts	5,073	3,670	3,670	0	No additional fee required
Housing Revenue Account Subsidy	4,915	N/A	N/A	N/A	No longer applicable
Single Programme	0	900	0	-900	No longer covered by Audit Commission Certification Instructions
Reporting to those charged with Governance	2,120	N/A	N/A	N/A	
Total	**86,896**	**52,950**	**64,560**	**11,610**	

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Agenda Item 13

Haringey Council

Report for:	Corporate Committee 28 January 2014	Item number	

Title:	Internal Audit Progress Report – 2013/14 Quarter 3

Report authorised by :	Assistant Director Corporate Governance Bernie Ryan

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.

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

Haringey Council

ensure audit recommendations are implemented and address the outstanding recommendations during the third quarter, 2013/14.

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

4. Other options considered

4.1 Not applicable.

5. Background information

5.1 The 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 31 December 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;
- 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 December 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.

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 2013/14 and up to the end of the third quarter, twenty five Council properties were recovered, equivalent to a cost saving to the Council of £450k.

Haringey Council

7. Legal Implications

7.1 The Head of Legal Services has been consulted in the preparation of this report, and save to confirm that the Committee does have the Constitutional power to take the action detailed in the recommendation paragraph, advises that there are no specific legal implications arising from 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.

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 31/12/13.

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	3rd Quarter	Year to date	Target
1	Audit work – Days Completed vs. Planned programme	77.3%	67%	95%
2	Priority 1 recommendations implemented at follow up	100%	100%	95%

Haringey Council

3	Benefit fraud cases completed and accepted for prosecution	10	27	30
4	Benefit overpayments recovered (including POCA and confiscation awards)	£0.2k	£4.4k	£150k

13. Internal Audit work – Deloitte and Touche contract

13.1 The activity of Deloitte and Touche for the third 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 174 days audit work during the quarter due to staff annual leave commitments. 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.

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 41 recommendations to date and found that 40 have been implemented and 1 is in progress. No Priority 1 recommendations remain outstanding. Overall, a compliance rate of 98% has been achieved for the third 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 up to the end of the third quarter of 2013/14 relating to Council employees. The listing at

Haringey Council

Appendix B also includes any referrals made using the Council's whistle blowing policy which were investigated by Internal Audit. During the third quarter, one staff-related whistle blowing referral was made.

14.2 Within the third quarter, twelve new cases relating to permanent and temporary employees were referred to Internal Audit. Eight cases were completed during the quarter involving Council employees. 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 tenancy costs councils an estimated £18k in temporary accommodation and other associated costs.

14.4 As at 31 December 2013, 116 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 173 referrals (148 received in total during 2012/13) and Table 2 below summarises the source of these referrals:

Table 2

Referrals Received From:	Number
Brought forward 2012/13	57
Tenancy Management Officer	71
Fraudcall (email and freephone telephone)	25
Members of the Public	3
National Fraud Initiative	1
Other Local Authority	2
Haringey Staff	13
Home Office	1
Total	**173**

14.5 During 2013/14 and up to the end of the third quarter, twenty five Haringey properties have been recovered in total, plus seven 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. Sixty five cases have been closed where no fraud has been identified and there are 76 ongoing investigations.

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 31 December 2013, 37 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 66 referrals to date.

Haringey Council

14.7 As a result of the joint working, sixteen Registered Providers' properties have been recovered in the year to date. Investigations have been closed in five cases with no fraud identified and are ongoing in 45 cases.

14.8 In December 2013, the team recruited two temporary members of staff to assist with the investigation and recovery of fraudulent and ineligible tenancies. These staff are both internal secondments to the corporate anti-fraud team and are being funded from the specific central government grant provided to support the tenancy fraud work.

15. Housing Benefit Fraud Investigation

15.1 During the third quarter, the HB Fraud team completed investigations on seven new benefit fraud cases and submitted these for prosecution at crown court via Legal Services, giving a total of twenty seven 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.

15.2 The team achieved ten successful prosecutions during the quarter and eleven to date, with a total overpayment value of £271.2k, although only £4.4k 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. Council-wide disciplinary statistics

16.1 Appendix C details the number of disciplinary suspensions and/or action taken in the third 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.

16.2 During the quarter, the number of disciplinary cases investigated was 31, with 14 remaining 'open' at the end of the quarter. The average length of time taken to resolve disciplinary cases in the quarter was 58 days, which is a decrease of 20 days on the previous quarter's average. Internal Audit has not completed any further verification on the information provided by HR for this appendix.

17. Consultants information

17.1 Appendix D details the consultants employed by the Council during the third 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.

APPENDIX A

Internal Audit
Quarter 3 Internal Audit Report
2013/14
London Borough of Haringey

Deloitte & Touche Public Sector Internal Audit Ltd.
January 2014

DELOITTE INTERNAL AUDIT - QUARTERLY AUDIT REPORT 2013/14

APPENDIX A

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DELOITTE INTERNAL AUDIT - QUARTERLY AUDIT REPORT 2013/14

APPENDIX A

Executive Summary

Introduction

This is our third 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 3 2013/14 – Final Reports issued:

2013/14 Internal Audits finalised in the quarter:

- Pan-London (Major) Equipment Service;
- Pan-London Prescription (Minor Equipment) Service;
- Temporary Accommodation Procurement Processes;
- Housing Benefits Cap;
- Data Quality;
- 14-19 Provision; and
- Commercial Property.

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:

- Active Directory User Security;
- Parking Services – Residents Permits and Visitors Vouchers;
- Children remanded into Custody and Care;
- Housing in Multiple Occupation – Licensing Arrangements; and
- Social Fund.

Follow Up of Prior Years' Recommendations

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

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

2012/13
To date we have followed up 41 recommendations raised in 2012/13 and the results of our work are as follows:

- Implemented – 40 (97.5%);
- In Progress or partly implemented – 1 (2.5%);

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 3 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
2013/14							
Pan-London (Major) Equipment Service	August 2013	11/10/13	Substantial	N/A	1	2	0
Pan-London Prescription (Minor Equipment) Service	August 2013	11/10/13	Substantial	N/A	0	3	0
Temporary Accommodation Procurement Processes	Sept. 2013	05/11/13	Substantial	N/A	0	2	0
Housing Benefits Cap	Sept. 2013	21/11/13	Substantial	N/A	0	1	0
Data Quality	August 2013	11/12/13	Substantial	⟺	0	1	1
14-19 Provision	September 2013	11/12/13	Limited	N/A	4	4	0
Commercial Property	October 2013	11/12/13	Substantial	N/A	1	3	1

DELOITTE INTERNAL AUDIT - QUARTERLY AUDIT REPORT 2013/14

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As part of the 2013/14 Internal Audit Plan we have visited the following schools, completed a probity audit and during Quarter 3 issued a final report.

School	Date of Audit	Report Date	Assurance Level	Number of Recommendations (Priority)		
				1	2	3
2013/14						
Stroud Green Primary School	June 2013	05/11/13	Limited	5	14	2
Earlham Primary School	June 2013	05/11/13	Nil	13	17	0
Ferry Lane Primary School	June 2013	05/11/13	Limited	5	11	0
Stamford Hill Primary School	June 2013	07/11/13	Limited	4	10	4
Alexandra Primary School	September 2013	21/11/13	Substantial	0	7	1
Northumberland Park Community School	September 2013	11/12/13	Limited	6	6	1
Hornsey School for Girls	November 2013	20/12/13	Substantial	1	5	1

As part of the 2013/14 Internal Audit Plan we have visited the following schools during Quarter 3 and completed a probity audit, for which a draft report has been issued.

- Lancasterian Primary School.

Audit area	Scope	Status/key findings	Assurance
CHILDREN & YOUNG PEOPLE'S SERVICE			
14-19 Provision 2013/14	Audit work was undertaken to cover the following areas: • Governance; • Compliance with statutory and local requirements; • Duty of the service to secure adequate and suitable education and training opportunities; • Information management and data sharing arrangements; • Formal arrangements with providers; • Income and expenditure; and • Monitoring and reporting review.	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The key findings are as follows: • As at 9 September 2013, a structure for the Raising the Participation Age (RPA) Team had not been agreed by the Project Management Group, although the Project Initiation Document (PID) specifies its completion by September 2013. • The PID for the RPA dated 30 May 2013 details the Council's responsibilities in relation to the Education and Skills Act 2008. Although the Project Manager forwarded the PID to the Project Sponsor and the Assistant Director of CYPS, neither the PID nor other guidance explaining the Council's responsibilities arising from the Act had been circulated amongst the Project Management Group (PMG) and proposed RPA Team. • The PMG and Project Group meetings are not formally minuted. • In six of the ten cases of post-16 young people sampled, there were no supporting documents or audit trails on the IYSS Client Caseload Information System (CCIS) to reflect their current activities. In three of these instances, the users were employed by the Council. • For a sample of ten post-16 young people sampled, the information recorded on the IYSS Client Caseload Information System (CCIS) did not reflect their current activities, destinations and/or guarantees. For nine of these cases, a review date had not been recorded and in the remaining case the review date was recorded at the end of a destination for which they did not have a guarantee. Furthermore, in all ten instances the records were not classified as 'not known'. • Welfare Call collects data on behalf of the Council via their 'Client follow up, Support Programme Data Protection Agreement'. However, a signed copy by the parties could not be provided for examination. We also established that the Agreement referred to 2002, with no formal extensions having been agreed. Furthermore, examination of the Agreement template established that it did not	**Limited**

Audit area	Scope	Status/key findings	Assurance
		specify: o itemised costs for the service; o performance indicators; o penalties and incentives in accordance with the actual performance achieved; and o the requirement for them to use the Haringey Youth Community and Participation Service Script which we were informed is expected. • We were informed that the Council had informally agreed to partner and share information with various providers of post-16 education, employment and training; however, none had been executed by way of formal partnership and information sharing agreements. Furthermore, we were informed that providers of education for under-16s were in no way obliged to share information regarding the activities of young people. • We established that reports of progress against the RPA Strategic Plan had not been produced. As a result of our audit work we have raised four Priority 1 and four Priority 2 recommendations, which should assist in improving the control environment. The Priority 1 recommendations are as follows: • The current activity review dates of young peoples' records on the CCIS system should be assigned in accordance with the Department for Education's 'Management Information Requirement from the Client Caseload Information System' guidance. • The agreement between the Council and Welfare Call should be executed in accordance with the expected service provision. This should include itemised costs and performance indicators together with any penalties or incentives that would act to deter poor quality services. • Partnership and information sharing agreements should be proposed to all known providers of education, employment and training. Any existing informal agreements to partner and share information should	

Audit area	Scope	Status/key findings	Assurance
		be executed formally. • Reports of progress against the RPA Strategic Plan should be produced and presented to the Project Management Group, Project Group and RPA Team for review and further action, where appropriate. The Priority 2 recommendations are as follows: • The RPA Team structure should be formally agreed and presented to the Project Management Group for review and approval. Evidence of this should be documented in the relevant meeting minutes. • The PID for the RPA or other guidance regarding the Council's responsibilities in relation to the Education and Skills Act 2008 should be circulated amongst the Project Management Group and the proposed/agreed RPA Team. • Meetings held by the Project Management and Project Groups should be formally minuted with actions agreed and assigned to relevant owners. The minutes should be agreed and signed off at the subsequent meeting and progress on agreed actions should be continuously monitored until completion. • Haringey Team Leaders and Practitioners should be required to detail and, where possible, evidence the source of the information that they use to record the activities and destinations of young people in the CCIS.	

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 ***Management Update 8 January 2014:*** 'We have identified a problem with the Dunning process which is an integral part of the Debt Recovery process. Following discussion we will amend the Debt Recovery process to reflect best practice and commission work to get the Dunning process to reflect the Debt Recovery process. We will complete an amended process by end of March 2014'.

Ref	Recommendation	Priority	Original Implementation Deadline	Progress/Status
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 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

Ref	Recommendation	Priority	Original Implementation Deadline	Progress/Status
				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* ***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

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														
Accounts Receivable	Substantial	0	2	0	**2**	0	2	0	**2**	0	**0**	**0**	**0**	0
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**	0
Chief Executive – People and Organisational Development														
Declarations of Interest	Limited	1	2	0	**3**	1	2	0	**3**	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	
Gifts and Hospitality	Limited	1	2	1	**4**	1	2	1	**4**	0	**0**	**0**	**0**	0
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**	**28**	**5**	**41**	**8**	**27**	**5**	**40**	**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 Harinet 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 Harinet by 31/10/2013. **Management Update 7/1/2014:** The updated policy is now expected to be approved on 24/1/2014.

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

January 2014

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APPENDIX B

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

Directorate	Irregularity Type	No. of cases investigated	No. of cases proven at 31/12/2013	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	2 x Final Written Warning 2 x Dismissal 1 x Pending Disciplinary Action	£108,160
	Allegation that right to remain in the UK has expired	1	1	1	Employee Resigned	
Adults and Housing	Allegation of contribution to irregular benefit claim	1	1	1	Dismissed Appeal Lodged	
	Allegation of Irregular Time Keeping	1	1	1	Standard Setting to be undertaken	
	Allegation of running a private business in work time	1	1	1	Disciplinary Action Pending	

APPENDIX B

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

Directorate	Irregularity Type	No. of cases investigated	No. of cases proven at 31/12/2013	No. of Officers subject to Disciplinary Investigation	Disciplinary Outcome	Value (£) (if known)
Place and Sustainability	Allegation that right to remain in the UK has expired	3	1	1	Dismissed Dismissal upheld at appeal	
	Allegation of use of irregular parking permits	3	3	3	1 x Employee Resigned 2 x Disciplinary Action Pending	
Strategy and Performance	Allegation that employee submitted irregular timesheet	1	1	1	Employee resigned	
TOTAL		17	15	15		£108,160

APPENDIX C

Haringey Council – Corporate Committee

Disciplinary Case Analysis October 2013 to December 2013

Introduction

The information in this report is taken from SAP, covering the period **October 2013 – December 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)

APPENDIX C

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	5	4	9	8
C	4	5	9	6
CE	0	1	1	1
CR	0	0	0	0
PH	0	0	0	0
PS	5	6	11	10
SP	0	1	1	1
Total	14	17	31	26

Please note that the total number of cases is **31**, but this only represents **26** 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 **1.2%** in this quarter

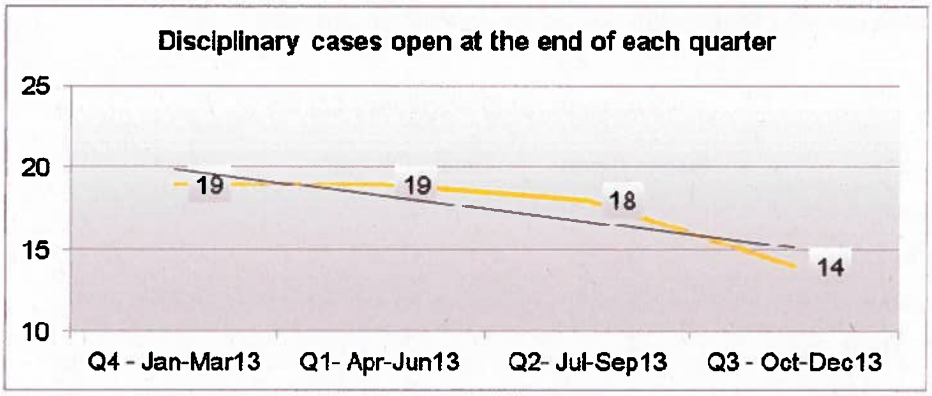
The following table looks at the stages of Disciplinary cases.

Stages of Disciplinary Cases				
Stage	Cases Open	Cases Closed	Total	%
Invest. - not suspended	2	2	4	13
Invest. - suspended	8	10	18	58
ET	1	0	1	3
Appeal	3	5	8	26
Total	14	17	31	100

- **14** cases remain **'open'** at the end of this quarter compared to **18** cases in the previous quarter

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

APPENDIX C



The following table identifies the outcomes of the 17 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	2	0	2	12
Dis. Appeal Part Upheld	0	0	1	0	1	6
Dis. Appeal Upheld	0	0	2	0	2	12
Dis. Appeal Withdrawn	0	0	0	0	0	0
Dis. Dismissal	0	2	0	0	2	12
Dis. ET Dismissed	0	0	0	0	0	0
Dis. ET Withdrawn	0	0	0	0	0	0
Dis. Final Written Warning	0	1	0	0	1	6
Dis. No Action	1	2	0	0	3	18
Dis. Other	0	0	0	0	0	0
Dis. Relegation/Demotion	0	0	0	0	0	0
Dis. Resigned	0	3	0	0	3	18
Dis. Verbal Warning	0	0	0	0	0	0
Dis. Warning & Sanction	0	1	0	0	1	6
Dis. Written Warning	1	0	0	0	1	6
Escalated to next stage	0	0	0	0	0	0
Suspension Lifted	0	1	0	0	1	6
Total	2	10	5	0	17	100

APPENDIX C

This table displays reasons for Disciplinary action against employees.

Reasons for Disciplinary Cases				
Reason	Cases Open	Cases Closed	Total	%
Assault	1	0	1	3
Attendance	0	0	0	0
Behaviour	2	10	12	39
Fraud / Theft	4	3	7	23
Misuse of resources	1	0	1	3
Negligence	3	2	5	16
Other	3	2	5	16
Total	14	17	31	100

- The highest cause for disciplinary action was for **Behaviour** at **39%** and **Fraud/Theft** at **23%**

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	10	48	11	52	21	81
White	2	50	2	50	4	15
Not Declared	1	100	0	0	1	4
Total	13	50	13	50	26	100

- **32%** of the workforce is male, but the male representation with disciplinary cases is higher at **52%**
- **37.8%** of the workforce is female BAME, but the female BAME representation with disciplinary cases is at **48%**

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	9	36	5	20	5	20	2	8	0	0	21	84
	White	3	12	1	4	0	0	0	0	0	0	4	16
Total		12	48	6	24	5	20	2	8	0	0	25	100

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

APPENDIX C

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	8
No. of cases not concluded - leaver	0
Total	18

Timescales (no of days) of Suspension Cases

The table below looks at the **18** 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.

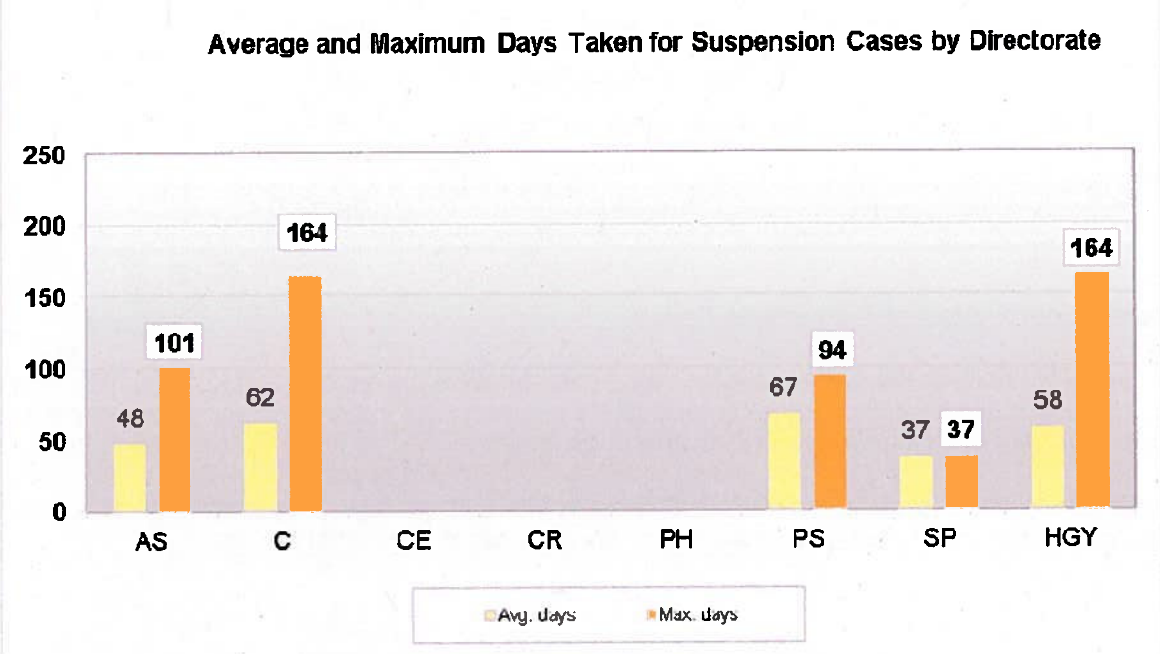
Timescales (no of days) of Suspension Cases

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	1	0	0	0	5	239	48	101	2
C	5	1	1	0	0	7	432	62	164	5
CE	0	0	0	0	0	0	0	0	0	2
CR	0	0	0	0	0	0	0	0	0	0
PH	0	0	0	0	0	0	0	0	0	0
PS	2	3	0	0	0	5	333	67	94	2
SP	1	0	0	0	0	1	37	37	37	1
HGY	12	5	1	0	0	18	1041	58	164	10
Total cases closed	7	2	1	0	0	10				

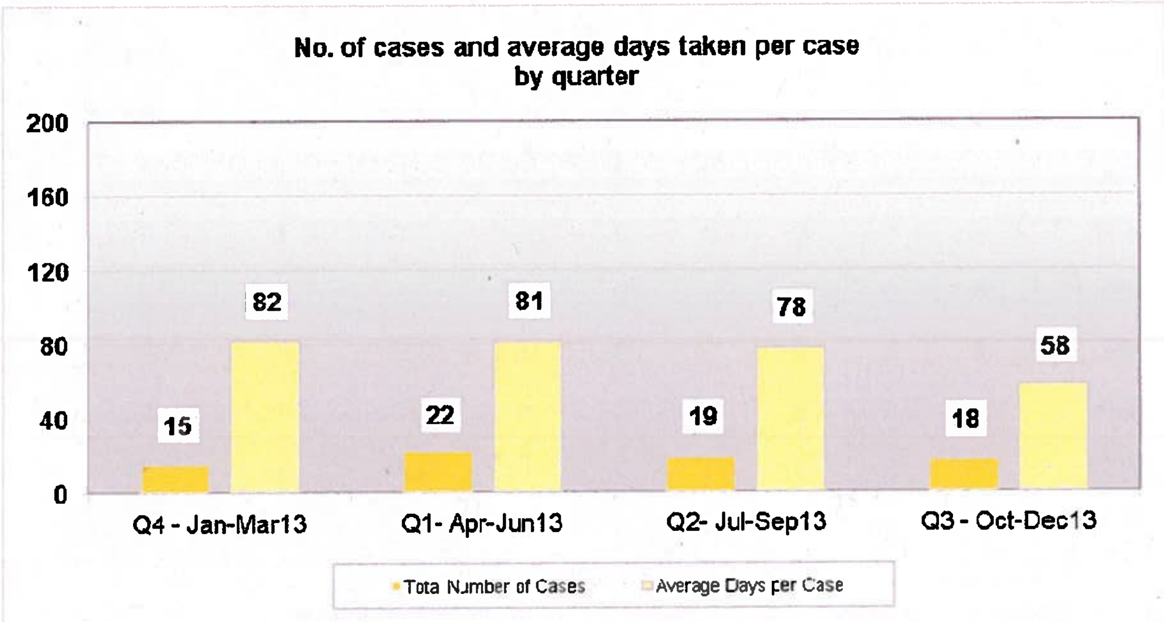
On average, **58** days were spent on each suspension case within the quarter.

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 58 with a total of 18 cases. 8 of these cases remain open at the end of Quarter 3.

Internal audit progress report Qtr 3 - Appendix D (consultants) (2)

Dir	Business unit	Status	Start date	Original End Date	Revised End date	Actual End Date	Leaver Y/N	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	£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	28/02/2014			Ameo Recruitment Agency	£630	2 to 4	Revenue	Assist with preparing Youth, YOS and Alternative Provision to move to a commisioning approach.
CYPS	PEI	Consultant	03/07/2013	27/09/2013	31/03/2014			Ameo Recruitment Agency	£595	2	Capital	To review the YOS and prepare them for the regulatory inspection. Extended to end March 2014 toprovide additional support pending recruitment.
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 Commissisoning & Placements (Adoption & Fostering)
CYPS	Children & Families	Consultant	27/08/2013	26/11/2013	31/03/2014			Self Employed - Wardell Associate Ltd	£250	2.5	Revenue	LCSB Policy Officer - additional resource required to complete work within deadlines.
CYPS	Children & Families	Consultant	01/06/2011	31/12/2013		waiting for confirmation of new end date		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		waiting for confirmation of new end date		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	19/09/2013	30/01/2014	30/03/2014			Agency - iPeople	£650 - £850 wef 01/01/2014	5	Revenue	Capacity - to work on Ofsted Readiness. Interim QA AD wef 01/01/2014
CYPS	Children & Families	Consultant	04/11/2013	30/04/2014				Agency - Hamptons	£684	5	Revenue	Interim DD Early Years, Early Help
CYPS	Children & Families	Consultant	11/12/2013	30/05/2014				Agency - iPeople	£750	5	Revenue	Capacity - to work on Ofsted Readiness following transfer of ER to Interim QA AD
CYPS	Children & Families	Consultant	19/11/2013	30/05/2014				Agency - iPeople	£484	5	Revenue	Capacity - to work on Quality Assurance.
CE	BLT	Consultant	01/12/2011	30/11/2013	31/10/2014 - New contract in process of being drawn up.			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
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	28/02/2014			Allen Lane Interim Recruitment Agency	£300	5	Revenue	Senior Capital Accountant

Dir	Business unit	Status	Start date	Original End Date	Revised End date	Actual End Date	Leaver Y/N	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
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	27/05/2013	31/12/2013	31/03/2014			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	Corporate Property Services	Consultant	01/11/2008	30/09/2013	new contract being drwan up wef 4/01/2014 to 30/09/2014			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	new contract being drwan up wef 4/01/2014 to 31/12/2014			Self Employed: Simon Consultancy	£380	3	Revenue	Assist with priority work streams of the Haringey Property review and provide stategic advice.
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.
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	contract in process of being extended to 31/03/2014			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	31/03/2014				Penna Recruitment Agency	£675	2 to 3	Revenue	To supply Planning and Regeneration Services
CE	Resources	Interim	02/12/2013	02/10/2014				Penna Recruitment Agency	£1,050	5	Revenue	Interim Chief Operating Officer.
P&S	Economic Development	Consultant	04/11/2013	31/03/2014				Penna Recruitment Agency	£618	3	Revenue	The Economic Development services is being reviewed for restructuring and developing a new approach. The service also needs to develop a new innovative employment programme for 2014/15. Due to workloads there is no cacapcity to undertake this review with current resource.

Haringey Council

Report for:	Corporate Committee 28 January 2014	Item number	14

Title:	Delegated Decisions /Significant Actions/ Urgent Actions
Report authorised by :	Head of Legal Services Bernie Ryan
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 ADULT AND HOUSING SERVICES

Significant decisions - Delegated Action – November 2013

♦ denotes background papers are Exempt.

No	Date approved by Director	Title	Decision
1.	13.11.13	Delegated Authority: Fairer Contributions Policy	Approved
2.			

Delegated Action	
	Number
04.11.13: CSO 8.02, CSO 10.01.1b, CSO 9.07.1c Community Alarm Service - tender	
13.11.15: HRS extension of contracts under Standing Order 3.01	
20.11.13: HRS contract – Norwood Schools Ltd	
25.11.13: LBH contract – Valuing Care Financial Management Ltd	
27.11.13: CSO 10.02 HRS contract with 9 BME Providers	
27.11.13: 1-17 John Clifford House Decent Homes Programme	

Submission authorised by: B F Tarka

Beverley Tarka – on behalf of

Mun Thong Phung - Director of Adult and Housing Services

Date: __5th December 2013______

DIRECTOR OF CYPS

Significant decisions - Delegated Action 2013/14 – Nov to December 2013

♦ denotes background papers are Exempt.

No	Date approved by Director	Title	Decision

Delegated Action

Type	Number
Delegated Authority for less than 20 members of staff: Restructuring of Fostering Service Delegated Authority for Less than 50 members of staff: Restructuring of Family Intervention Service	

Signed: LISA REDFERN
Lisa Redfern LISA REDFERN
Director, Children's Services (Acting)

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By virtue of paragraph(s) 1, 4 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is exempt

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