Haringey Council

Corporate Committee

THURSDAY, 20TH MARCH, 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 20 for unrestricted items and item 24 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 - 10)

To consider and agree the minutes of the meeting held on 28 January 2014.

<u>Note from the Assistant Director of Corporate Governance and Monitoring Officer</u>

When considering items 6, 7, 8, 9 and 10, the Committee will be operating in its capacity as "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 interest of the Pension Fund above all other considerations.

6. FINAL ACTUARIAL VALUATION AND FUNDING STRATEGY STATEMENT (PAGES 11 - 88)

To present final versions of the Actuarial Valuation report and Funding Strategy Statement.

7. PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES (PAGES 89 - 110)

To request approval of the updated Statement of Investment Principles.

8. PENSION FUND QUARTERLY UPDATE (PAGES 111 - 126)

To report the following in respect of the three months to 31st December 2013:

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

9. PENSION FUND: LONDON COLLECTIVE INVESTMENT VEHICLE (PAGES 127 - 138)

To summarise progress in establishing the Collective Investment Vehicle.

10. PENSION FUND INVESTMENT IN RECOMMENDED INVESTMENT FUNDS (PAGES 139 - 144)

Allocations to two new asset classes were agreed at the January 2014 meeting and officers were delegated to identify suitable investment funds for consideration by the Committee.

11. TREASURY MANAGEMENT UPDATE (PAGES 145 - 150)

To update the Committee on the treasury management developments since 1st January 2014, in particular the recent sale of Icelandic deposits.

12. LOCAL GOVERNMENT PENSION SCHEME - EMPLOYER DISCRETIONS (PAGES 151 - 168)

The Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2013 come into effect on 1st April 2014. There are some discretionary elements which the Council as the Employing Body can exercise. Regulation 60 (as amended by the Transitional Regulations) requires the London Borough of Haringey to prepare, approve, publish and keep under review changes to the Council's Policy Statement on the exercise of its employer discretions.

13. PAY POLICY STATEMENT 2014/15 (PAGES 169 - 178)

The council is required to produce an annual Pay Policy Statement to comply with the requirements of the Localism Act 2011. The council published its first Pay Policy Statement in March 2012. The attached Pay Policy Statement 2014/15 is a slightly amended statement from the 2013/14 Pay Policy with updates to the delegations regarding Members considering remuneration or severance packages of £100,000 or more.

14. SCHOOLS EMPLOYEE CONSULTATIVE GROUP (PAGES 179 - 186)

To seek Corporate Committee approval to a revised consultative and negotiating group for school based employees.

15. ANNUAL INTERNAL AUDIT PLAN AND STRATEGY 2014/15 (PAGES 187 - 196)

The Corporate Committee is responsible for reviewing and approving the annual internal audit plan as part of its Terms of Reference. In order to facilitate this, a draft audit plan for 2014/15, together with the internal audit strategy, is provided for review and approval by the Corporate Committee.

16. AUDIT LETTERS TO MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE - ASSURANCE STATEMENTS TO COMPLY WITH INTERNATIONAL AUDITING STANDARDS (PAGES 197 - 210)

For the Committee to note the responses set out and propose any amendments that may be considered necessary before submission to the auditors.

17. THE AUDIT PLAN (PAGES 211 - 246)

Report of Grant Thornton.

18. LOCAL AUDIT AND ACCOUNTABILITY ACT 2014 (PAGES 247 - 252)

To brief members following the enactment of the Local Audit and Accountability Act 2014 (The Act). The Act received Royal Assent on the 30 January 2014.

19. DELEGATED DECISIONS, SIGNIFICANT ACTIONS, URGENT ACTIONS (PAGES 253 - 260)

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.

20. ANY OTHER BUSINESS OF AN URGENT NATURE

To consider any items admitted at item 2 above.

21. 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 3, information relating to any individual and information relating to the business or financial affairs of any particular person (including the Authority holding that information).

22. EXEMPT MINUTES (PAGES 261 - 274)

To receive the minutes of the Special Committees held on 19 December 2013, 6 March 2014 and 7 March 2014 and the Council and Employee Joint Consultative Committee, held on 10 October 2013.

23. PENSION FUND INVESTMENT IN RECOMMENDED INVESTMENT FUNDS (PAGES 275 - 280)

To consider exempt information pertaining to agenda item 10.

24. ANY ITEMS OF EXEMPT URGENT BUSINESS

Bernie Ryan
Assistant Director – Corporate Governance and Monitoring Officer
Level 5
River Park House
225 High Road
Wood Green
London N22 8HQ

Helen Chapman
Principal Committee Coordinator
Level 5
River Park House
225 High Road
Wood Green
London N22 8HQ

Tel: 020 8489 2615
Email: helen.chapman@haringey.gov.uk

Wednesday, 12 March 2014

This page is intentionally left blank

MINUTES OF THE CORPORATE COMMITTEE
TUESDAY, 28 JANUARY 2014

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

MINUTE NO.	SUBJECT/DECISION	ACTION BY
CC303.	**APOLOGIES (IF ANY)** Apologies for absence were received from Cllr Amin, for whom Cllr Mallett was substituting, from Cllr Khan, for whom Cllr Browne was substituting and from Michael Jones.	
CC304.	**URGENT BUSINESS** There were no items of urgent business.	
CC305.	**DECLARATIONS OF INTEREST** There were no declarations of interest.	
CC306.	**DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS** There were no such items.	
CC307.	**MINUTES** **RESOLVED** That the minutes of the meeting held on 26 November 2013 be approved and signed by the Chair.	
CC308.	**PENSION FUND INVESTMENT STRATEGY** The Committee considered the report on the Pension Fund's investment strategy, which recommended changes to the Pension Fund's asset allocations, and also that increased property investment be made to rebalance the strategic allocation. The recommendations had been made following advice received from Mercer since their appointment as new Investment Consultant, and discussions held with the Pensions Working Group to review the investment strategy. Steve Turner, Mercer, addressed the Committee on the changes proposed by Mercer as set out in appendix 2 to the report, which would assist the Fund in managing	

risk, and improve the funding position over time.

In response to a question from the Committee regarding the risk of default in relation to Multi-Asset Credit and Private Debt investments, it was reported that risk management would be one of the key criteria used in assessing potential fund managers for these areas. In response to a specific question relating to investment in infrastructure and the recovery of capital in the event of, for example, an airport going into administration, it was reported that the amount recovered would depend on the terms of any agreement made, but that it was very unlikely that all capital investment would be lost in such an instance. It was reported that investment would be in a wide range of projects in order to reduce such risks, and that the risk of default was reflected in higher returns. Whilst no investment was completely risk free, it was reported that infrastructure was a low-risk form of debt and that most projects covered by this type of investment would be subject to protective regulation.

The Committee asked whether officers accepted the advice contained in paragraph 8.1 of the report from Mercer with regard to the need for an OJEU exercise. It was reported that advice would be sought from the Council's legal and procurement teams regarding this point, and that this advice would be circulated to the Committee for information. In response to a question regarding the Pension Fund's current liquidity, Mr Turner advised that Mercer had no concerns regarding the Fund's level of liquidity.

HoTP / AD Fin

In response to a question from the Committee regarding the costs associated with the proposed areas of active management, it was reported that while costs varied, an indicative fee would be around 80 basis points.

Subject to the receipt of the legal and procurement advice regarding the OJEU matter, the Committee considered the recommendations of the report and it was:

RESOLVED

i) That the strategic asset allocation of the pension fund be amended in accordance with appendix 1 to the report;

ii) That additional cash be 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.

CC309. DRAFT PENSIONS FUNDING STRATEGY STATEMENT

The Committee considered the report on the draft Pensions Funding Strategy Statement. The report sought approval for the draft strategy to be circulated for consultation with the participating employers, with a final report coming back to the Committee at its meeting in March 2014. The report summarised the changes to the strategy since it was last

	updated in 2011, and it was noted that the main change related to academies, in order to bring Haringey in line with the majority of local authorities and the approach assumed by Government. It was confirmed that changes to the strategy would come into force from 1 April 2014. The Committee noted that the proposed changes with regard to academies could mean an increased contribution rate for schools, and asked whether the consultation process would include those schools who were considering becoming academies, so that they were aware of the potential implications. It was noted that the consultation was for existing employers including current academies, but officers agreed that this should be widened out to those schools considering becoming academies. In response to a question from the Committee as to whether stabilisation measures could have a negative impact on the funding position, officers advised that the strategy was financially modelled to ensure a good chance of moving towards fully-funded status over time, and that this was reviewed on a three-yearly basis so that further modelling could be undertaken and adjustments made as necessary. The Committee asked whether guidance was issued on responding to the consultation, given the technical nature of the documentation; officers confirmed that they offered to meet with all employing bodies in order to go through the issues with them. **RESOLVED** That the draft Funding Strategy Statement be circulated for consultation with pension scheme employers, and those schools considering academy status.	HoTP / AD Fin
CC310.	**NOVATION OF CBRE INVESTMENT MANAGEMENT AGREEMENT** The Committee considered the report seeking approval for the novation of the property management agreement to CBRE Global Collective Investors UK Limited. **RESOLVED** 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 Management (UK Funds) Ltd) by way of novation of the Fund’s existing investment management agreement dated 28 February 2003.	
CC311.	**TREASURY MANAGEMENT 2012/13 QUARTER 3 UPDATE** The Committee considered the report on the Council’s treasury management activities and performance in the quarter to 31st December 2013. It was reported that £41m of debt had been repaid during the	

	quarter, the majority of which had been short-term debt at low interest rates, but repayment of some longer term debt had led to an annual saving for the Council of £2m in interest. The only new borrowing during the quarter was reported as a weekend bridging loan, and it was anticipated that there may be a need for a further such loan in the forthcoming quarter. In response to a question from the Committee regarding the increase in credit risk scores as indicated in paragraph 14.5 of the report, it was reported that there had been a significant reduction in balances, most of which were held in banks and money market funds from the approved counterparty list, rather than the DMO. While this led to an increase in the credit risk scores, the much lower level of balances meant that the risk of default was significantly lower than previously. It was confirmed that the counterparty list was monitored on a regular basis, and that any proposed changes to the list were brought to the Committee for approval – it was noted that this would be covered as part of the following agenda item for this meeting. The Committee asked whether, given the current low levels of interest rates, it would be preferable to use the DMO and therefore keep the credit risk scores lower, in response to which officers advised that the banks and money market funds in use were considered safe, and did enable the Council to make some additional income as a result of the higher rates they offered. In response to a question regarding the cost of the bridging loan, it was reported that this was very low (at around 0.4% per annum) and enabled the Council to keep a low level of cash balances, in line with the Treasury Management Strategy. The Committee noted that the interest payable by the Council appeared at its lowest level for some time, and welcomed the reduction in the cost of debt that had been reported throughout the year. The Committee acknowledged the good work that had been undertaken around treasury management by officers over the course of the year. **RESOLVED** That the Treasury Management activity undertaken during the quarter to 31st December 2013 and the performance achieved be noted.	
CC312.	**TREASURY MANAGEMENT STRATEGY STATEMENT** The Committee considered the report on the proposed Treasury Management Strategy Statement and Prudential Indicators for 2014/15 to 2016/17 (TMSS). The TMSS had been updated since the draft version presented to the Committee in November 2013, and now included the prudential indicators – this document had been considered by the Council's Overview and Scrutiny Committee, and the Committee was asked to recommend the final version of the Strategy to Full Council for final approval. The Committee asked about the possibility of prematurely repaying	

	loans taken out at higher interest rates, as set out in paragraph 4.11 of the Strategy. Officers advised that there was now a significant premium payable for early repayment; the Council and its treasury management advisors carried out regular calculations as to whether early repayment would be financially beneficial to the Council, comparing the interest saved with the repayment premium payable, and took action accordingly. In response to a question from the Committee regarding the authorised debt limit and operational boundary as indicated in annex 2 of the TMSS, and why these were so high compared with the capital budget, officers advised that this was a precautionary measure, and that in reality expenditure would never come close to this limit. The Committee acknowledged the need for some headroom, but asked whether it was necessary for this limit to be set so far above what would conceivably be required. It was agreed that these figures would be revised downward for the final TMSS that went to Full Council for approval. **RESOLVED** That, subject to the requested amendment of the figures for the authorised debt limit and operational boundary, the proposed Treasury Management Strategy Statement and Prudential Indicators for 2014/15 to 2016/17 at Appendix 1 of the report be recommended to Full Council for approval as part of the Financial Planning report.	HoTP / AD Fin
CC313.	**EXTERNAL AUDIT PROGRESS UPDATE** The Committee considered the progress report provided by Grant Thornton. With regard to the 2012/13 Audit Certificate and the potential objection referred to in the report, it was advised that there had been ongoing liaison with the potential objector and that, unless further correspondence was received in the interim, it was intended that the 2012/13 audit be closed at the end of January. The Committee's attention was drawn to Grant Thornton's report '2016 tipping point? Challenging the current' which had recently been published. In response to a request from the Committee, it was agreed that a report on the implications of the Local Audit and Accountability Bill would be brought to the next Committee. The Committee asked whether Grant Thornton had any comments to make with regard to income from charging, or business rate collection. With regard to income from charging, Paul Dossett, Grant Thornton, advised that there had been a useful report produced by the Audit Commission on this topic in 2010. While he was unable to comment on the position in Haringey specifically, Mr Dossett advised that the Council should be reviewing its policies around income from charging, and benchmarking against other local authorities on an ongoing basis. Tracie Evans advised the Committee that the Council was currently around average for London Boroughs, although the proposed freeze in charges would mean that the Council was likely to be below average among the	

	London Boroughs for the coming year. With regard to the collection of business rates, Mr Dossett advised that, historically, Haringey had a high collection rate, with fluctuations in the collection level within reasonable expectations. It was noted that the collection of business rates would become a more significant issue, as new arrangements came into effect. The Committee asked about the potential objection with regard to the 2012/13 Audit Certificate. Mr Dossett advised that such objections were relatively infrequent, but that this particular matter was related to a wider campaign related to parking issues. It was reported that the Council had provided a significant amount of information in response to requests from the potential objector, and a decision had been taken that the Audit would be closed if nothing further was heard by 31 January 2014. **RESOLVED** That the content of the report be noted.	
CC314.	**GRANTS CERTIFICATION REPORT - 2012/13** The Committee considered the report from Grant Thornton on their certification work for 2012/13. As indicated in the executive summary, two errors had been identified in the Teachers' Pension return, which were corrected, and the Housing and Council Tax benefits claim was qualified as in previous years. While it was not unusual for Housing and Council Tax benefit claims to be qualified due to the complexity of this area, it was noted that the number of errors had increased compared with the previous year. The Council had undertaken additional testing, and a recommendation had been made for the Council to determine the reasons for the increase in errors within the Housing and Council Tax benefits claim and undertake additional training where necessary. In response to questions regarding the findings in respect of the Housing and Council Tax benefits claim, Paul Ellicott, Head of Revenues, Benefits and Customer Services, addressed the Committee on the background to the errors identified, and the work that was being undertaken to address this. Mr Ellicott advised that findings had been based on a small sample, and the rate of errors identified was not necessarily representative; it was also reported that almost half of the sample related to assessments undertaken in the 11/12 financial year, which may have affected the rate of errors identified. It was additionally noted that, in the current financial climate, such claims had become increasingly complex. With regard to quality assurance and checking, Mr Ellicott advised that the service had identified a need to increase the amount of time spent on quality control – it was noted that officers who worked on quality control were the same staff as those working on policy change and associated training; with the significant changes in this area of work introduced in the past year, more resources had been devoted to the areas of policy change and training, and there was a need to rebalance workloads to ensure that there was sufficient focus on quality control issues.	

	Paul Dossett, Grant Thornton, advised that quality control processes were key to increasing performance in this area and reducing the number of errors. It was noted that the Housing and Council Tax benefits claims were qualified for most local authorities, and that the number of errors identified in Haringey, whilst having increased, was still below the threshold for there to be any impact on the level of funding received from the Department for Work and Pensions. It was also noted that the additional testing work that the Council had been required to undertake had been done very efficiently. In response to a question from the Committee regarding whether the Housing and Council Tax benefit claim would be unqualified next year if the recommended action was completed in line with the action plan at appendix B, Mr Dossett advised that there may still be a qualification, however this would be significantly shorter. The Committee sought assurance that there were sufficient resources available to undertake the quality assurance work required, in response to which Tracie Evans advised that she was working with Paul Ellicott to identify where resources could be focussed to best effect; following the significant changes that had been implemented over the past year affecting the work of this service, management were now in a position to review the necessary allocation of resources. In response to a question from the Committee as to whether increased IT investment would help to address any of the issues, Mr Ellicott advised that the majority of issues related to human error rather than system problems. The Committee asked whether it would be possible to have more regular updates on this area of work, and it was agreed that a report would be brought back to the Committee in six months' time. **RESOLVED** That the content of the report be noted.	
CC315.	**INTERNAL AUDIT QUARTER 3 PROGRESS REPORT** The Committee considered the progress report for Internal Audit for quarter 3, 2013-14, as circulated. It was noted that this was the last internal audit report from Deloitte and Touche, who had been sold to Mazars with effect from 1 February 2014 – in the short term, it was reported that this would have no impact on the delivery of the internal audit service, however it was confirmed that additional contract monitoring and review would be undertaken in order to ensure that there was no impact on performance and this would be reported on as part of the Head of Audit's Annual Report. With regards to the investigation of benefit fraud, Anne Woods, Head of Audit and Risk Management, advised that, with the introduction of the DWP's single fraud investigation service that was proposed for introduction within the next two years, there would be a gap created as the Council lost its right to investigate benefit fraud, but retained the responsibility for administering benefits until such time as the Universal Credit system was implemented.	

	The Committee asked about the issues identified regarding the procurement audit. Jacquie McGeachie, Interim Head of HR and Organisational Development, advised that, prior to her joining the organisation, there had been little progress made on the Hays Resource Management project, however the project was now at the testing stage, and was due to go live next week. In response to a further question from the Committee, it was confirmed that the contract with Hays included a penalty clause, but that the issues identified were the responsibility of the Council, and not Hays. In response to a question from the Committee regarding the Data Quality Policy, it was confirmed that the updated policy had now been approved. It was agreed that a copy of the updated policy be circulated to all Committee Members.	HARM
	The Committee sought assurance that there had been no incidents that Members should be aware of with regards to the public mortuary, and it was agreed that the Head of Audit and Risk Management would ask the Assistant Director to confirm this to the Committee.	HARM
	The Committee asked about 14-19 Provision 2013/14 audit, and noted the small sample size. It was reported that the nature of this audit was a system check, working through every stage of the process, which was why sample sizes were relatively small. It was agreed that the Head of Audit and Risk Management would confirm with the service what follow-up action had been undertaken, and would include this within the follow-up audit report.	HARM
	In response to a question regarding the performance statistics for benefit overpayments recovered, it was reported that while the actual amount recovered so far this year was well below the £150k target, there was sometimes a time delay in recovering assets. This year, a number of people had been issued by the courts with deadlines for the settlement of amounts owed, including one payment amounting to £250k, and if these were received, the target would be achieved. It was noted that the target had been exceeded in the preceding year. The Committee questioned the value of targets in this area, however it was felt that having targets did help to focus attention on those who had deliberately set out to defraud the benefits system in a criminal manner.	
	With regard to the data on consultants, the Committee sought clarification on the use of ‘as and when’ to describe the number of days per week worked. It was reported that this related to staff occasionally called on for ad hoc pieces of work, for example the additional testing required in relation to the Housing and Council Tax benefit claim, as reported earlier in the agenda. The Committee asked about the two positions in Children and Families which stated ‘waiting for confirmation of new end date’, and it was reported that these two contracts had now been extended for an additional year, as part of the work on the transformation of the adoption and fostering service.	
	The Committee noted that appointment to a number of senior posts would be taking place over the next few weeks.	

	RESOLVED i) That the Committee note the audit coverage and counter-fraud work completed and the actions taken during the quarter to ensure audit recommendations are implemented and address the outstanding recommendations during the third quarter, 2013/14. ii) That the Committee note the information received from the HR business unit.	
CC316.	**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 the report be noted.	
CC317.	**ANY OTHER BUSINESS OF AN URGENT NATURE** There were no new items of urgent business.	
CC318.	**EXCLUSION OF PRESS AND PUBLIC** **RESOLVED** That the press and public be excluded from the meeting for the following items 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.	
CC319.	**EXEMPT MINUTES** The Committee received the minutes of the Special Committees held on 28 November 2013 and 6 January 2014.	
CC320.	**DELEGATED DECISIONS, SIGNIFICANT ACTIONS, URGENT ACTIONS** The Committee considered exempt information pertaining to agenda item 14.	
CC321.	**EXEMPT ITEMS OF URGENT BUSINESS** There were no exempt items of urgent business.	

	The meeting closed at 9pm.	

COUNCILLOR GEORGE MEEHAN

CHAIR

Report for:	Corporate Committee 20th March 2014	**Item number**	

Title:	Final Actuarial Valuation and 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 8621

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

1. Describe the issue under consideration

1.1 Final versions of the Actuarial Valuation report and funding strategy statement are presented.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Committee is invited to note the actuarial valuation report and schedule of contributions and agree the Funding Strategy Statement.

4. Other options considered

4.1 None.

5. Background information

5.1 The Actuarial Valuation and Funding Strategy Statements both discuss the measurement of liabilities and the setting of contribution rates.

Haringey Council

The FSS determines the approach and the actuarial valuation applies these to determine the required contribution levels.

5.2 Contribution levels are set by the Actuary following consultation with the administering authority and individual employers. Consultation has taken place through the issue of individual employer results and a draft FSS, with meetings held with employers to discuss both. These reports are presented in their final versions.

6. Comments of the Chief Finance Officer & financial implications

6.1 The Actuary has determined the contribution rates for the next three years on the basis of the methodology and assumptions agreed with the Committee and reflected in the funding strategy statement. There has been a process of consultation with employers. No adverse comments were received.

7. Head of Legal Services and Legal Implications

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

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

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

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

7.5 The Funding Strategy Statement was prepared and published under Regulation 76A of the Local Government Scheme Regulations 1997. Under Regulation 35 of the Local Government Pension Scheme (administrations) Regulations 2008, the Administering Authority must maintains and reviews the Funding Strategy Statement having regards to the Chartered Institute of Public Finance and Accountancy's guidance entitled "Guidance on preparing and Managing a Funding Strategy Statement" and to the Fund's Statement of Investment Principles and to consult such persons as it considers appropriate.

Haringey Council

7.6 The Funding Strategy Statement attached to this report complies with the obligations set out in the Regulations.

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

Appendix 1: Actuarial Valuation Report
Appendix 2: Funding Strategy Statement

12 Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Actuarial Valuation Report

13.1 The pension fund is subject to an actuarial valuation every three years in which the actuary determines the cost of future benefits and also any adjustments required for under or over funding of past service liabilities.

13.2 The draft actuarial report was considered at the November Committee meeting. In particular the Committee reviewed the assumptions and methodologies used by the Actuary. Subsequent to that meeting, schedules of results for individual employers were issued and employers were invited to a meeting held during December in which the Actuary explained the background to the valuation and answered questions on individual results.

13.3 There have been no changes to the report, including assumptions, as a consequence of the consultation process.

13.4 The results in the report are for the fund as a whole and not individual employer. The final page discloses contributes rates set by the actuary for each employer.

Haringey Council

13.5 The fund as a whole results remain a deficit of £369 million and a funding level of 70%. The reported reasons for the movements since March 2011 are as previously discussed.

13.6 The Council contribution levels for the three years from 1 April 2014 shown on page 39 are expressed 17.1% of earnings plus a lump sum of £6.9 million rising to £8.6 million. The Council will pay 23.9% to 24.9% in the three years but monitor that the level of deficit contributions meets the level set by the Actuary.

13.7 Only one employer, Age Concern Haringey, has raised concern at the affordability of the contribution levels. A meeting was held and information requested to support the level payable, which is outstanding.

13.8 The outcome from the Government's consultation on pooling academies has not been issued. If pooling with local authorities is offered and accepted, the contribution rates for academies will change.

14. Funding Strategy Statement

14.1 The Funding Strategy Statement (FSS) explains the funding objectives of the Scheme, in particular the measurement of liabilities and setting of contribution levels. The achievement of the twin objectives of solvency together with stability and affordability of contributions is discussed.

14.2 The Committee agreed at its prior meeting to circulate a draft funding strategy statement for consultation with employers. Consultation has taken place, including a meeting on 3rd March 2014. At the Committee's request the FSS was sent to all schools.

14.3 No feedback / questions have been received from the consultation and the attached version is unchanged.

Hymans Robertson LLP has carried out an actuarial valuation of the London Borough of Haringey Pension Fund ("the Fund") as at 31 March 2013, details of which are set out in the report dated TBC ("the Report"), addressed to London Borough of Haringey ("the Client"). The Report was prepared for the sole use and benefit of our Client and not for any other party; and Hymans Robertson LLP makes no representation or warranties to any third party as to the accuracy or completeness of the Report.

The Report was not prepared for any third party and it will not address the particular interests or concerns of any such third party. The Report is intended to advise our Client on the past service funding position of the Fund at 31 March 2013 and employer contribution rates from April 2014, and should not be considered a substitute for specific advice in relation to other individual circumstances.

As this Report has not been prepared for a third party, no reliance by any party will be placed on the Report. It follows that there is no duty or liability by Hymans Robertson LLP (or its members, partners, officers, employees and agents) to any party other than the named Client. Hymans Robertson LLP therefore disclaims all liability and responsibility arising from any reliance on or use of the Report by any person having access to the Report or by anyone who may be informed of the contents of the Report.

London Borough of Haringey Pension Fund 2013 Actuarial Valuation Valuation Report

HYMANS ROBERTSON
The Spirit of Independence

March 2014

Contents

1 Executive summary

We have carried out an actuarial valuation of the London Borough of Haringey Pension Fund ('the Fund') as at 31 March 2013. The results are presented in this report and are briefly summarised below.

Funding position

The table below summarises the financial position of the Fund at 31 March 2013 in respect of benefits earned by members up to this date.

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

The increase in deficit reflects the adverse conditions which the Fund has had to contend with since the previous valuation. In particular, the decrease in the real gilt yield has increased the value placed on the Fund's liabilities.

Contribution rates

The table below summarises the average employer contribution rate that would be required, based on this triennial valuation.

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

Again, the increase in the total employer contribution rate is primarily due to the decrease in the real gilt yields which has increased both the employer future service rate and the past service adjustment.

The common contribution rate is a theoretical figure – an average across the whole Fund. In practice, each employer that participates in the Fund has its own underlying funding position and circumstances, giving rise to its own contribution rate requirement. The minimum contributions to be paid by each employer from 1 April 2014 to 31 March 2017 are shown in the Rates and Adjustment Certificate in **Appendix G**.

2 Introduction

We have carried out an actuarial valuation of the London Borough of Haringey Pension Fund as at 31 March 2013.

Purpose

The main purposes of this valuation are:

- to assess the extent to which the Administering Authority's funding objectives were met at 31 March 2013;
- to identify the future contributions payable by the employers that participate in the Fund in order to meet the Administering Authority's funding objectives;
- to enable completion of all relevant certificates and statements in connection with all relevant regulations;
- to comment on the main risks to the Fund that may result in future volatility in the funding position or to employers' contributions.

Component reports

This document is an "aggregate" report, i.e. it is the culmination of various "component" reports and discussions, in particular:

- The data report (mentioned in **section 7**);
- The Discussion Document (dated 08 November 2013) which outlined the preliminary assumption proposals and whole fund results;
- The formal agreement by the Administering Authority of the actuarial assumptions used in this document, at a meeting dated 26 November 2013;
- The stabilisation modelling carried out for certain employers, as detailed in our report and presentation to the Administering Authority of 5 August 2013;
- The Funding Strategy Statement, confirming the different contribution rate setting approaches for different types of employer or in different circumstances.
- Note that not all of these documents may be in the public domain.

3 Assumptions

Actuarial assumptions

Assumptions must be made about the factors affecting the Fund's finances in the future. Broadly speaking, our assumptions fall into two categories – financial and demographic.

Demographic assumptions typically try to forecast **when** benefits will come into payment and what form these will take. For example, when members will retire (e.g. at their normal retirement age or earlier), how long they will then survive and whether a dependant's pension will be paid.

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

Financial assumptions

A summary of the main financial assumptions adopted for the valuation of members' benefits are shown below.

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

** Plus an allowance for promotional pay increases.*

***1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.*

Discount rate

The funding valuation is effectively a planning exercise, to assess the funds needed to meet the benefits as they fall due. In order to place a current value on the future benefit payments from the Fund, an assumption about future investment returns is required in order to "discount" future benefit payments back to the valuation date at a suitable rate.

For a funding valuation such as this, the discount rate is set by taking into account the Fund's current and expected future investment strategy and, in particular, how this strategy is expected to outperform the returns from Government bonds over the long term. The additional margin for returns in excess of that available on Government bonds is called the Asset Outperformance Assumption (AOA).

The selection of an appropriate AOA is a matter of judgement and the degree of risk inherent in the Fund's investment strategy should always be considered as fully as possible.

Although there has been a downward shift in the expected returns on risky assets since the 2010 valuation, we believe the expected returns in excess of the returns on government bonds to be broadly unchanged since 2010. Therefore, we are satisfied that an AOA of 1.6% p.a. is a prudent assumption for the purposes of this valuation. This results in a discount rate of 4.6% p.a.

Price inflation / pension increases

Due to further analysis of the CPI index since 2010, we expect the average long term difference between RPI and CPI to be 0.8% p.a. compared with 0.5% p.a. at the 2010 valuation.

At the previous valuation, the assumption for RPI was derived from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, we have adopted a similar approach.

Salary increases

The long term assumption for salary increases is RPI plus 1% p.a. This translates to CPI plus 1.8% p.a. This is a change in approach from 2010 where we assumed 1% p.a. for 2 years and RPI plus 1.5% p.a. thereafter.

We have set a lower long term rate of salary growth to reflect both short term pay constraints and the belief that general economic growth and hence pay growth may be at a lower level than historically experienced for a prolonged period of time.

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

Longevity

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. For this valuation, we have adopted assumptions which give the following sample average future life expectancies for members:

	Actives & Deferreds		Current Pensioners	
Assumed life expectancy at age 65	**Male**	**Female**	**Male**	**Female**
2010 valuation - baseline	21.2	23.8	21.2	23.8
2010 valuation - improvements	23.3	26.1	21.9	24.7
2013 valuation - baseline	19.9	22.5	19.7	22.0
2013 valuation - improvements	24.2	26.5	21.9	24.1

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

Assets

We have taken the assets of the Fund into account at their market value as indicated in the audited accounts for the period ended 31 March 2013.

In our opinion, the basis for placing a value on members' benefits is consistent with that for valuing the assets - both are related to market conditions at the valuation date.

Demographic assumptions

We are in the unique position of having a very large local authority data set from which to derive our other demographic assumptions. We have analysed the trends and patterns that are present in the membership of local authority funds and tailor our demographic assumptions to reflect LGPS experience.

Details of these assumptions are set out in **Appendix E**. Further commentary on these was included in the Discussion Document.

Further comments on the assumptions

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

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

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

4 Results

The Administering Authority has prepared a Funding Strategy Statement which sets out its funding objectives for the Fund. In broad terms, the main 'past service' objective is to hold sufficient assets in the Fund to meet the assessed cost of members' past service benefits and the main 'future service' objective is to maintain a relatively stable employer contribution rate. These objectives are potentially conflicting.

Past service

In assessing the extent to which the past service funding objective was met at the valuation date, we have used the actuarial assumptions described in the previous section of this report and funding method described in **Appendix C**. The table below compares the value of the assets and liabilities at 31 March 2013. The 31 March 2010 results are also shown for reference.

The results are presented in the form of a "funding level", this is the ratio of the market value of assets to the assessed cost of members' past service benefits ("liabilities").

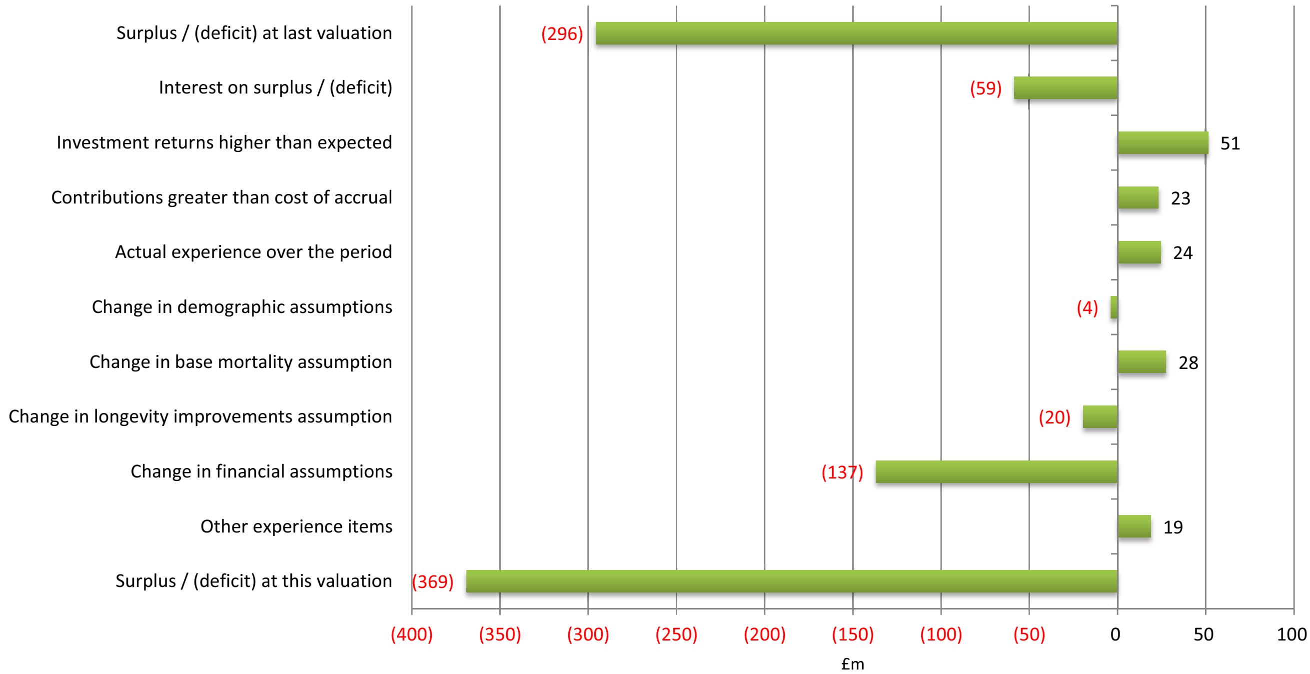
A funding level of 100% would correspond to the funding objective being met at the valuation date.

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

The main funding objective was not met: there was a shortfall of assets to the assessed cost of members' benefits of £369m.

Summary of changes to the funding position

The chart below illustrates the factors that caused the funding position to deteriorate between 31 March 2010 and 31 March 2013:



Further comments on some of the items in this chart:

* There is an interest cost of £59m. This is broadly three years of compound interest at 6.1% p.a. applied to the previous valuation deficit of £296m.
* Investment returns being higher than expected since 2010 led to a gain of £51m. This is roughly the difference between the actual and expected three-year return applied to the whole fund assets from the previous valuation of £664m, with a further allowance made for cashflows during the period.
* The impact of the change in demographic assumptions has been a loss of around £4m.
* The change in mortality assumptions (baseline and improvements) has given rise to a gain of £8m. This is mainly due to the change in assumed baseline longevity.
* The change in financial conditions between the previous valuation has led to a loss of £137m. This is due to a decrease in the real discount rate between 2010 and 2013. This has partially been offset by the 0.3% p.a. increase in our assumption of the gap between RPI and CPI.
* Other experience items, such as changes in the membership data, have served to reduce the deficit at this valuation by around £43m.
* Note that the benefit changes that come into effect as at 1 April 2014 do not change the funding position as all past service benefits to 31 March 2014 are protected.

Future service

We have calculated the average long-term contribution rate that the Fund employers would need to pay to meet the estimated cost of members' benefits that will be earned after 31 March 2013 (the 'future service contribution

rate'). Again, we have used the assumptions set out in the previous section of this report and the method set out in **Appendix C**. The resulting contribution rate is that which should (if the actuarial assumptions about the future are borne out in practice) ensure that the Administering Authority's main future service funding objective is met. The table below details this future service contribution rate for 31 March 2013 and shows the 31 March 2010 for comparison.

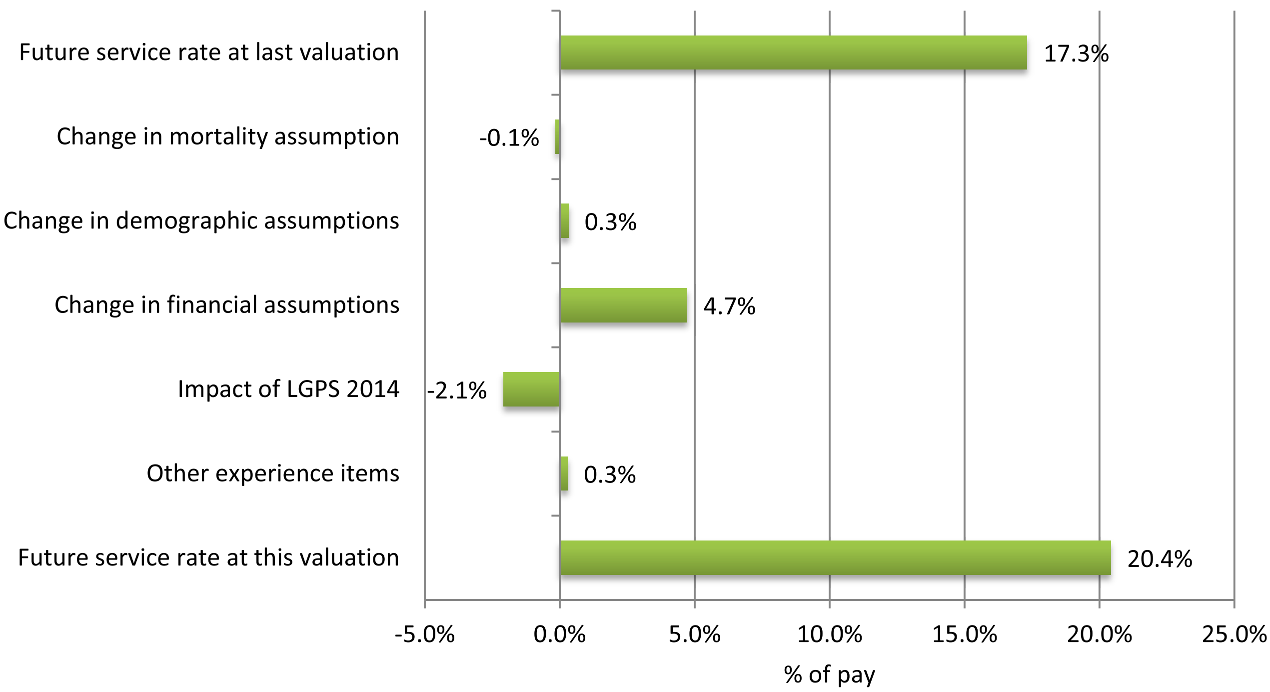
Valuation Date	**31 March 2010**	**31 March 2013**
Future service rate	**% of pay**	**% of pay**
Employer future service rate (excl. expenses)	16.9%	19.9%
Expenses	0.5%	0.5%
Total employer future service rate (incl. expenses)	**17.3%**	**20.4%**
Employee contribution rate	6.8%	6.6%

Note that the employee contribution rate includes any additional contributions being paid by employees as at 31 March 2013 into the Fund. This future service contribution rate makes no allowance for the past service deficit in the Fund described above.

The average future service rate for Fund employers is 20.4% of pay. This rate is calculated as at 31 March 2013 and therefore forms part of the total contribution rate payable by employers from 1 April 2014. Note this rate makes an allowance for changes to the benefit structure that take effect from 1 April 2014. In practice, a future service rate for each employer has been calculated which is based on their particular circumstances and membership profile. The rate above is an average future service rate for the Fund as a whole.

Summary of changes to the future service rate

The chart below illustrates the factors that caused the future service rate to increase between 31 March 2010 and 31 March 2013:



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

In addition to this, the impact of the LGPS 2014 scheme has resulted in a reduction in contribution rate of 2.1% of payroll.

Total common contribution rate payable

The total (or "common") contribution rate payable is the average future service rate for Fund employers plus an additional amount to recover the deficit and bring the funding level back to 100% over a period of 20 years, as set out in the Funding Strategy Statement. This additional amount is referred to as the past service adjustment.

The common contribution rate based on the funding position as at 31 March 2013 is detailed below along with the results for 31 March 2010:

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

This does not represent the rate which any one employer is actually required to pay, nor is it the average of the actual employer rates. The actual employer contributions payable from 1 April 2014 are given in **Appendix G**, and these have been devised in line with the Funding Strategy Statement: see **section 6.**

5 Risk Assessment

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

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

The main risks to the financial health of the Fund should be **identified**.

Where possible, the financial significance of these risks should be **quantified**.

Consideration should be given as to how these risks can then be **controlled** or **mitigated**.

These risks should then be **monitored** to assess whether any mitigation is actually working.

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

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

Sensitivity of valuation results to changes in assumptions

The table below gives an indication of the sensitivity of the valuation results to small changes in some of the main assumptions used.

		Impact	
Assumption	**Change**	**Deficit (£m)**	**Future service rate (% of pay)**
Discount rate	Increases by 0.5%	Falls by £109m	Falls by 3.2%
Salary increases	Increases by 0.5%	Rises by £30m	No change
Price inflation / pension increases	Increases by 0.5%	Rises by £089m	Rises by 3.6%
Life expectancy	Increases by 1 year	Rises by £37m	Rises by 0.8%

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

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

Investment risk

Sensitivity of valuation results to market conditions and investment performance

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

Less obvious is the effect of anticipated investment performance on the Fund's liabilities (and future service cost). Here it is the returns available on government bonds that are of crucial importance, as the discount rate that we use to place a value on the Fund's liabilities is based on gilt yields at the valuation date plus a margin of 1.6% p.a.

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

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

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

Note that the scenarios illustrated above are by no means exhaustive. They should not be taken as the limit of how extreme future investment experience could be. The discount rate assumption adopted at this valuation is expected to be appropriate over the long term. Short term volatility of equity markets does not invalidate this assumption.

Longevity risk

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

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

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

The table below shows how the valuation results at 31 March 2013 are affected by adopting different longevity assumptions.

	Impact	
Longevity assumption	**Deficit (£m)**	**Future service rate**
2010 valuation	(296)	17.3%
2013 valuation (with improvements)	(369)	20.4%
2013 valuation (further improvements)	(419)	21.8%
1 year extra	(458)	22.6%

The shaded box contains the results for this valuation.

Full details of the longevity improvements adopted at this valuation are set out in **Appendix E**.

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

The "1 year extra" figures relative to a further year of life expectancies beyond those assumed in "further improvements".

Again, the range of assumptions shown here is by no means exhaustive and should not be considered as the limits of how extreme future longevity experience could be.

Other risks to consider

The table below summarises the effect that changes in some of the other valuation assumptions and risk factors would have on the funding position. Note that these are probably unlikely to have a large financial impact on the Fund and therefore the analysis is qualitative rather than quantitative.

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

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

Managing the risks

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

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

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

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

6 Related issues

The Fund's valuation operates within a broader framework, and this document should therefore be considered alongside the following:

- the Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated;
- the Statement of Investment Principles (e.g. the discount rate must be consistent with the Fund's asset strategy);
- the general governance of the Fund, such as meetings of the Pensions Committee, decisions delegated to officers, the Fund's business plan, etc;
- the Fund's risk register;
- the register of Fund employers.

Further recommendations

Valuation frequency

Under the provisions of the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2016. In light of the uncertainty of future financial conditions, we recommend that the financial position of the Fund (and for individual employers in some cases) is monitored by means of interim funding reviews in the period up to this next formal valuation. This will give early warning of changes to funding positions and possible contribution rate changes.

Investment strategy and risk management

We recommend that the Administering Authority continues to regularly review its investment strategy and ongoing risk management programme.

New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund actuary for individual calculation as to the required level of contribution.

Additional payments

Employers may make voluntary additional contributions to recover any shortfall over a shorter period, subject to agreement with the Administering Authority and after receiving the relevant actuarial advice.

Further sums should be paid to the Fund by employers to meet the capital costs of any unreduced early retirements, reduced early retirements before age 60 and/or augmentation (i.e. additional membership or additional pension) using the methods and factors issued by me from time to time or as otherwise agreed.

In addition, payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions.

Cessations and bulk transfers

Any Admission Body who ceases to participate in the Fund should be referred to us in accordance with Regulation 38 of the Administration Regulations.

Any bulk movement of scheme members:

∗ involving 10 or more scheme members being transferred from or to another LGPS fund, or

* involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement should be referred to us to consider the impact on the Fund.

7 Reliances and limitations

Scope

This document has been requested by and is provided to London Borough of Haringey in its capacity as Administering Authority to the London Borough of Haringey Pension Fund. It has been prepared by Hymans Robertson LLP to fulfil the statutory obligations in accordance with regulation 36 of the Administration Regulations. None of the figures should be used for accounting purposes (e.g. under FRS17 or IAS19) or for any other purpose (e.g. a termination valuation under Regulation 38(1)).

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

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. We have previously issued a separate report confirming that the data provided is fit for the purposes of this valuation and have commented on the quality of the data provided. The data used in our calculations is as per our report of 12 November 2013.

Actuarial Standards

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

TAS R – Reporting;

TAS D – Data;

TAS M – Modelling; and

Pensions TAS.

Douglas Green

Fellow of the Institute and Faculty of Actuaries

03 March 2014

Bryan T Chalmers

Fellow of the Institute and Faculty of Actuaries

03 March 2014

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

Appendix A: About the pension fund

For more details please refer to the Fund's Funding Strategy Statement.

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

Defined benefit pension scheme

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

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

Liabilities

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

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

Assets

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

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

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

The long-term nature of the Fund

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

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

Appendix B: Summary of the Fund's benefits

Provided below is a brief summary of the non-discretionary benefits that we have taken into account for active members at this valuation. This shouldn't be taken as a comprehensive statement of the exact benefits to be paid. For further details please see the Regulations.

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Normal retirement age (NRA)	Age 65.	Age 65.	Equal to the individual member's State Pension Age (minimum 65).
Earliest retirement age (ERA) on which immediate unreduced benefits can be paid on voluntary retirement	As per NRA (age 65). Protections apply to active members in the scheme immediately prior to 1 October 2006 who would have been entitled to immediate payment of unreduced benefits prior to 65, due to: The benefits relating to various segments of scheme membership are protected as set out in Schedule 2 to the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 and associated GAD guidance.		As per NRA (minimum age 65). Protections apply to active members in the scheme for pensions earned up to 1 April 2014, due to: a) Accrued benefits relating to pre April 2014 service at age 65. b) Continued 'Rule of 85' protection for qualifying members. c) Members within 10 yrs of existing NRA at 1/4/12 – no change to when they can retire and no decrease in pension they receive at existing NRA.
Member contributions	Officers - 6% of pensionable pay Manual Workers – 5% of pensionable pay if has protected lower rates rights or 6% for post 31 March 1998 entrants or former entrants with no protected rights.	Banded rates (5.5%-7.5%) depending upon level of full-time equivalent pay. A mechanism for sharing any increased scheme costs between employers and scheme members is included in the LGPS regulations.	Banded rates (5.5%-12.5%) depending upon level of actual pay. A mechanism for sharing any increased scheme costs between employers and scheme members will be included in the LGPS regulations in due course.
Pensionable pay	All salary, wages, fees and other payments in respect of the employment, excluding non-contractual overtime and some other specified amounts. Some scheme members may be covered by special agreements.		Pay including non-contractual overtime and additional hours.
Final pay	The pensionable pay in the year up to the date of leaving the scheme. Alternative methods used in some cases, e.g. where there has been a break in service or a drop in pensionable pay. Will be required for the statutory underpin and in respect of the final salary link that may apply in respect of certain members of the CARE scheme who have pre April 2014 accrual.		N/A

<table>
<tr><th>Provision</th><th>Benefit Structure To 31 March 2008</th><th>Benefit Structure From 1 April 2008</th><th>Benefit Structure From 1 April 2014</th></tr>
<tr><td>Period of scheme membership</td><td colspan="2">Total years and days of service during which a member contributes to the Fund. (e.g. transfers from other pension arrangements, augmentation, or from April 2008 the award of additional pension). For part time members, the membership is proportionate with regard to their contractual hours and a full time equivalent). Additional periods may be granted dependent on member circumstances.</td><td>N/A</td></tr>
<tr><td>Normal retirement benefits at NRA</td><td>Annual Retirement Pension - 1/80th of final pay for each year of scheme membership.

Lump Sum Retirement Grant - 3/80th of final pay for each year of scheme membership.</td><td>Scheme membership from 1 April 2008:

Annual Retirement Pension - 1/60th of final pay for each year of scheme membership.

Lump Sum Retirement Grant – none except by commutation of pension.</td><td>Scheme membership from 1 April 2014:

Annual Retirement Pension - 1/49th of pensionable pay (or assumed pensionable pay) for each year of scheme membership.

Lump Sum Retirement Grant - none except by commutation of pension.</td></tr>
<tr><td>Option to increase retirement lump sum benefit</td><td>In addition to the standard retirement grant any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.</td><td>No automatic lump sum. Any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.</td><td>No automatic lump sum. Any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.</td></tr>
<tr><td>Voluntary early retirement benefits (non ill-health)</td><td colspan="2">On retirement after age 60, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).</td><td>On retirement after age 55, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).</td></tr>
<tr><td>Employer's consent early retirement benefits (non ill-health)</td><td colspan="2">On retirement after age 55 with employer's consent.

Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction.

Otherwise, benefits are subject to reduction on account of early payment, unless this is waived by the employer.</td><td>Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction.

Employer's consent is no longer required for a member to retire from age 55. However, benefits are subject to reduction on account of early payment, unless this is waived by the employer.</td></tr>
</table>

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Ill-health benefits	As a result of permanent ill-health or incapacity. Immediate payment of unreduced benefits. Enhancement to scheme membership, dependent on actual membership. Enhancement seldom more than 6 years 243 days.	As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before age 65. Immediate payment of unreduced benefits. Enhanced to scheme membership, dependent on severity of ill health. 100% of prospective membership to age 65 where no likelihood of undertaking any gainful employment prior to age 65; 25% of prospective membership to age 65 where likelihood of obtaining gainful employment after 3 years of leaving, but before age 65; or 0% of prospective membership where there is a likelihood of undertaking gainful employment within 3 years of leaving employment	As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before NRA. Immediate payment of unreduced benefits. Enhanced to scheme membership, dependent on severity of ill health. 100% of prospective membership to age NRA where no likelihood of undertaking any gainful employment prior to age NRA; 25% of prospective membership to age NRA where likelihood of obtaining gainful employment after 3 years of leaving, but before age NRA; or 0% of prospective membership where there is a likelihood of undertaking gainful employment within 3 years of leaving employment

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Flexible retirement	After 5th April 2006, a member who has attained the age of 50, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may elect in writing to the appropriate Administering Authority that such benefits may, with his employer's consent, be paid to him notwithstanding that he has not retired from that employment. Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	A member who has attained the age of 55 and who, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may make a request in writing to the appropriate Administering Authority to receive **all or part** of his benefits, Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	
Pension increases	All pensions in payment, deferred pensions and dependant's pensions other than benefits arising from the payment of additional voluntary contributions are increased annually. Pensions are increased partially under the Pensions (Increases) Act and partially in accordance with statutory requirements (depending on the proportions relating to pre 88 GMP, post 88 GMP and excess over GMP).		
Death after retirement	A spouse's or civil partner's pension of one half of the member's pension (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners) is payable; plus If the member dies within five years of retiring and before age 75 the balance of five years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	A spouse's, civil partner's or nominated cohabiting partner's pension payable at a rate of 1/160th of the member's total membership multiplied by final pay (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners) is payable; plus If the member dies within ten years of retiring and before age 75 the balance of ten years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Death in service	A lump sum of two times final pay; plus A spouse's or civil partner's pension of one half of the ill-health retirement pension that would have been paid to the scheme member if he had retired on the day of death (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners); plus Children's pensions may also be payable.	A lump sum of three times final pay; plus A spouse's, civil partner's or cohabiting partner's pension payable at a rate of 1/160th of the member's total (augmented to age 65) membership (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners), multiplied by final pay; plus Children's pensions may also be payable.	
Leaving service options	If the member has completed three months' or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions ; or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than three months' scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.		If the member has completed two years or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions ; or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than two years scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.
State pension scheme	The Fund is contracted-out of the State Second Pension and the benefits payable to each member are guaranteed to be not less than those required to enable the Fund to be contracted-out.		
Assumed pensionable pay	N/A		This applies in cases of reduced contractual pay (CPP) resulting from sickness, child related and reserve forces absence, whereby the amount added to the CPP is the assumed pensionable pay rather than the reduced rate of pay actually received.
50/50 option	N/A		Optional arrangement allowing 50% of main benefits to be accrued on a 50% contribution rate.

Note: Certain categories of members of the Fund are entitled to benefits that differ from those summarised above.

Discretionary benefits

The LGPS Regulations give employers a number of discretionary powers. The effect on benefits or contributions as a result of the use of these provisions as currently contained within the Local Government Pension Scheme Regulations has been allowed for in this valuation to the extent that this is reflected in the membership data provided. No allowance has been made for the future use of discretionary powers that will be contained within the scheme from 1 April 2014.

Appendix C: About the valuation

For more details please refer the Fund's Funding Strategy Statement.

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

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

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

Past service

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

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

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

Future service

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

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

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

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

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

The sensitivity of valuation results

The aim of this valuation is not only to determine these important figures but also to demonstrate their sensitivity to a number of key influences. This will promote an understanding of how the expected cost of the Fund may change in response to uncertain future events (e.g. changes in life expectancy or investment returns). Please refer to **section 5** for details of the sensitivity analysis.

Appendix D: Data

This section contains a summary of the membership, investment and accounting data provided by the Administering Authority for the purposes of this valuation (the corresponding membership and investment data from the previous valuation is also shown for reference). For further details of the data, and the checks and amendments performed in the course of this valuation, please refer to our separate report.

Membership data – whole fund

Employee members

	31 March 2010		31 March 2013	
	Number	Pensionable Pay* (£000)	Number	Pensionable Pay* (£000)
Total employee membership	6,624	153,647	5,500	126,020

*actual pay (not full-time equivalent)

Deferred pensioners

	31 March 2010		31 March 2013	
	Number	Deferred pension (£000)	Number	Deferred pension (£000)
Total deferred membership	6,999	12,255	8,258	15,924

The deferred pension shown includes revaluation up to and including the 2013 Pension Increase Order. The figures above also include any “status 2” and “status 9” members at the valuation date.

Current pensioners, spouses and children

	31 March 2010		31 March 2013	
	Number	Pension (£000)	Number	Pension (£000)
Members	4,910	22,282	5,656	29,956
Dependants	899	2,100	963	2,372
Children	101	112	91	122
Total pensioner members	**5,910**	**24,494**	**6,710**	**32,451**

Note that the membership numbers in the table above refer to the number of records provided to us and so will include an element of double-counting in respect of any members who are in receipt (or potentially in receipt of) more than one benefit.

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

The average ages are weighted by liability.

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

Membership data – individual employers

Emp code	Employer Name	Employees Number	Employees Actual Pay (£000)	Deferreds Number	Deferreds Pension (£000)	Pensioners Number	Pensioners Pension (£000)
1	Haringey Council	4,149	93,344	7,585	14,220	6,080	29,058
3	Age Concern Haringey	2	79	5	1	16	63
4	Haringey Magistrates Courts Committee	0	0	21	67	18	90
5	College of Enfield and North East London (CHENEL)	152	4,032	240	481	117	610
6	CSS (Haringey) Ltd	0	0	33	68	49	109
7	Haringey Citizens Advice Bureaux	7	229	1	10	4	38
8	Alexandra Palace Trading Co Ltd	3	81	11	55	8	58
10	Jarvis Workspace FM Ltd	0	0	25	52	18	79
11	Urban Futures London Ltd	3	185	8	28	0	0
12	Enterprise Haringey Ltd	0	0	39	104	45	268
13	Greig City Academy	33	775	26	25	4	12
15	Trident Safeguards Ltd	0	0	0	0	2	15
16	Initial Catering Services Ltd	0	0	1	1	1	1
17	Harrisons Catering Ltd	0	0	1	0	2	3
18	Homes for Haringey	465	16,095	161	626	127	1,176
19	John Loughborough	11	227	4	9	1	5
20	TLC at Coopercroft	14	240	8	5	4	15
21	OCS Group UK Ltd	0	0	1	0	1	6
22	Fortismere School	38	805	13	17	7	56
23	RM Education PLC	0	0	3	6	0	0
25	Ontime Parking Solutions	0	0	3	12	1	4
26	ESSL	1	27	0	0	0	0
27	Veolia (Waste Management)	110	2,371	22	67	11	84
28	Alexandra Park School	52	1,132	6	5	2	13
29	Woodside Academy	54	976	3	8	1	4
30	Eden Free School	5	104	0	0	0	0
31	Churchill Cleaning	3	32	0	0	1	1
32	Coleraine	15	185	0	0	0	0
33	Downhills	19	179	0	0	1	8
34	Nightingale	24	322	3	4	1	4
35	Noel Park	40	484	1	0	0	0
36	Sports and Leisure	68	1,157	2	1	0	0
37	Cleaning contract	85	560	0	0	0	0
38	Haringey Sixth Form College	44	861	0	0	0	0
39	St Pauls All Hallows CofE Infants	20	275	0	0	0	0
40	St Pauls All Hallows CofE Junior	10	118	0	0	0	0
41	St Michaels CofE	12	138	1	0	0	0
42	St Annes CofE	17	210	0	0	0	0
43	The Green School	12	146	0	0	0	0
44	Hartsbrook E- ACT Free School	6	144	0	0	0	0
45	St Thomas More	27	533	0	0	0	0
100	Actuary Cards	0	0	0	0	144	619
200	Actuary Cards 2	0	0	31	36	44	52

Assets at 31 March 2013

A summary of the Fund's assets (excluding members' money-purchase Additional Voluntary Contributions) as at 31 March 2013 and 31 March 2010 is as follows:

Asset class	Market Value at 31 March 2010 (£000)	Allocation %	Market Value at 31 March 2013 (£000)	Allocation %
UK equities	193,806	29%	214,620	25%
UK fixed interest gilts	32,342	5%	0	0%
UK corporate bonds	75,755	11%	0	0%
UK index-linked gilts	40,119	6%	127,780	15%
Overseas equities	238,090	36%	458,417	53%
Overseas bonds	0	0%	0	0%
Property	45,895	7%	47,755	6%
Cash and net current assets	37,679	6%	14,620	2%
Total	**663,686**	100%	**863,192**	100%

Accounting data – revenue account for the three years to 31 March 2013

Consolidated accounts (£000)	Year to			Total
	31 March 2011	31 March 2012	31 March 2013	
Income				
Employer - normal contributions	34,140	30,938	29,788	94,866
Employer - additional contributions	0	0	0	0
Employer - early retirement and augmentation strain contributions	852	4,179	2,155	7,186
Employee - normal contributions	10,326	9,198	8,710	28,234
Employee - additional contributions	263	166	109	538
Transfers In Received (including group and individual)	6,034	9,072	4,258	19,364
Other Income	0	0	0	0
Total Income	**51,615**	**53,553**	**45,020**	**150,188**
Expenditure				
Gross Retirement Pensions	25,347	28,525	31,380	85,252
Lump Sum Retirement Benefits	5,989	12,956	7,771	26,716
Death in Service Lump sum	882	520	926	2,328
Death in Deferment Lump Sum	0	0	0	0
Death in Retirement Lump Sum	0	0	0	0
Gross Refund of Contributions	1	1	1	3
Transfers out (including bulk and individual)	7,687	4,231	5,127	17,045
Fees and Expenses	680	651	876	2,207
Total Expenditure	**40,586**	**46,884**	**46,081**	**133,551**
Net Cashflow	**11,029**	**6,669**	**-1,061**	**16,637**
Assets at start of year	**663,686**	**720,952**	**754,948**	**663,686**
Net cashflow	11,029	6,669	-1,061	16,637
Change in value	46,237	27,327	109,305	182,869
Assets at end of year	**720,952**	**754,948**	**863,192**	**863,192**
Approximate rate of return on assets	**6.9%**	**3.8%**	**14.5%**	**27.0%**

Note that the figures above are based on the Fund accounts provided to us for the purposes of this valuation, which were fully audited at the time of our valuation calculations.

Appendix E: Assumptions

Financial assumptions

Financial assumptions	31 March 2010 (% p.a.)	31 March 2013 (% p.a.)
Discount rate	6.1%	4.6%
Price inflation	3.8%	3.3%
Pay increases*	5.3%	4.3%
Pension increases:		
pension in excess of GMP	3.3%	2.5%
post-88 GMP	2.8%	2.5%
pre-88 GMP	0.0%	0.0%
Revaluation of deferred pension	3.3%	2.5%
Expenses	0.5%	0.5%

*An allowance is also made for promotional pay increases (see table below). Note that the assumption at 31 March 2013 is actually 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

Mortality assumptions

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

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

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

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

Various scaling factors have been applied to the mortality tables to reflect the predicted longevity for each class of member and their dependants. Full details of these are available on request.

As a member of Club Vita, the longevity assumptions that have been adopted at this valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. These curves are based on the data you have provided us with for the purposes of this valuation. Full details of these are available on request.

Other demographic valuation assumptions

Retirements in ill health	Allowance has been made for ill-health retirements before Normal Pension Age (see table below).
Withdrawals	Allowance has been made for withdrawals from service (see table below).
Family details	A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 75% for service from 1 April 2008).
50:50 option	10% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

The tables below show details of the assumptions actually used for specimen ages. The promotional pay scale is an annual average for all employees at each age. It is in addition to the allowance for general pay inflation described above. For membership movements, the percentages represent the probability that an individual at each age leaves service within the following twelve months.

Death in Service tables:

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

Ill Health Early Retirements tables

Tier 1

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

Tier 2

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

Tier 3

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

Withdrawal

Less than 2 years' service

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

More than 2 years' service

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

Promotional salary scale

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

Appendix F: Events since valuation date

Post-valuation events

These valuation results are in effect a snapshot of the Fund as at 31 March 2013. Since that date, various events have had an effect on the financial position of the Fund. Whilst we have not explicitly altered the valuation results to allow for these events, a short discussion of these "post-valuation events" can still be beneficial in understanding the variability of pension funding.

Investment conditions since 31 March 2013

In the period from the valuation date to early March 2014, investment markets moved in the following manner:

- asset returns have been c.3%.
- long term Government bond yields have risen by more than long term expected price inflation, which is likely to have reduced past service liabilities by 4%

It should be noted that the above is for information only: the figures in this report have all been prepared using membership data, audited asset information and market-based assumptions all as at 31 March 2013. In particular, we do not propose amending any of the contribution rates listed in the Rates & Adjustments Certificate on the basis of these market changes, and all employer contribution rates are based on valuation date market conditions. In addition, these rates are finalised within a risk-measured framework as laid out in the Fund's Funding Strategy Statement (FSS).

We do not propose altering the FSS to include allowance for post-valuation date market changes, since this principle would then need to be adopted for future valuations even if markets had worsened since the valuation date (thus increasing contribution rates). Such a change in principle would then obstruct advance planning by employers. Only allowing for market changes where these reduced contribution rates, and not where they increased the rates, would not be consistent with prudent financial management of the Fund.

Other events

Other than investment conditions changes above, I am not aware of any material changes or events occurring since the valuation date.

Appendix G: Rates and adjustments certificate

In accordance with regulation 36(1) of the Administration Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2014 to 31 March 2017 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated TBC and our report on the actuarial valuation dated TBC.

The required minimum contribution rates are set out in the table below,

Signature:

Date:	03 March 2014
Name:	Douglas Green
Qualification:	Fellow of the Institute and Faculty of Actuaries
Firm:	Hymans Robertson LLP
	20 Waterloo Street
	Glasgow
	G2 6DB

Statement to the rates and adjustments certificate

The Common Rate of Contribution payable by each employing authority under regulation 36(4)(a) of the Administration Regulations for the period 1 April 2014 to 31 March 2017 is 35.5% of pensionable pay (as defined in Appendix B).

Individual Adjustments are required under regulation 36(4)(b) of the Administration Regulations for the period 1 April 2014 to 31 March 2017 resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below.

The contributions shown include expenses and the expected cost of lump sum death benefits but exclude early retirement strain and augmentation costs which are payable by Fund employers in addition.

Employer		Contributions currently	Minimum Contributions for the Year Ending		
code	Employer name	being paid in 2013/14	31 March 2015	31 March 2016	31 March 2017
1	Haringey Council (Pool) *	22.9%	17.1% plus £6,905,000	17.1% plus £7,731,000	17.1% plus £8,616,000
3	Age Concern Haringey	33.8%	27.1% plus £62,000	27.1% plus £65,000	27.1% plus £68,000
5	College of Enfield and North East London	17.2% plus £662,000	20.7% plus £412,000	20.7% plus £429,000	20.7% plus £448,000
7	Haringey Citizens Advice Bureaux	21.7% plus £23,000	25.4% plus £54,000	25.4% plus £56,000	25.4% plus £59,000
8	Alexandra Palace Trading Co Ltd	23.0% plus £43,000	27.2% plus £44,000	27.2% plus £46,000	27.2% plus £48,000
11	Urban Futures London Ltd	19.5% plus £30,000	21.6% plus £23,000	21.6% plus £24,000	21.6% plus £25,000
13	Greig City Academy	16.8% plus £8,000	18.9% plus £15,000	18.9% plus £16,000	18.9% plus £16,000
18	Homes for Haringey *	18.3% plus £74,000	20.6% plus £417,000	20.6% plus £435,000	20.6% plus £453,000
19	John Loughborough	18.9%	20.4%	20.4%	20.4%
20	TLC at Coopercroft	25.4%	26.6%	26.6%	26.6%
22	Fortismere School	19.2% plus £27,000	20.4% plus £29,000	20.4% plus £31,000	20.4% plus £32,000
27	Veolia (Waste Management)	22.1%	26.4%	26.4%	26.4%
28	Alexandra Park School	22.1%	22.3% plus £46,000	22.3% plus £48,000	22.3% plus £50,000
29	Woodside Academy	24.8%	20.0% plus £23,000	20.0% plus £24,000	20.0% plus £25,000
30	Eden Free School	22.9%	19.4%	19.4%	19.4%
31	Churchill Cleaning	21.2%	22.9% plus £5,000	22.9%	22.9%
32	Coleraine	26.8%	21.6% plus £7,000	21.6% plus £8,000	21.6% plus £8,000
33	Downhills	27.9%	21.3% plus £8,000	21.3% plus £8,000	21.3% plus £8,000
34	Nightingale	28.5%	22.2% plus £13,000	22.2% plus £14,000	22.2% plus £14,000
35	Noel Park	26.2%	20.8% plus £16,000	20.8% plus £17,000	20.8% plus £18,000
36	Sports and Leisure	20.6%	22.1%	22.1%	22.1%
37	Cleaning contract	25.3%	24.6%	24.6%	24.6%
38	Haringey Sixth Form College	25.5%	18.7% plus £29,000	18.7% plus £31,000	18.7% plus £32,000
39	St Pauls All Hallows CofE Infants	26.3%	23.2%	23.2%	23.2%
40	St Pauls All Hallows CofE Junior	23.1%	23.2%	23.2%	23.2%
41	St Michaels CofE	24.5%	23.2%	23.2%	23.2%
42	St Annes CofE	25.9%	23.2%	23.2%	23.2%
43	Holy Trinity CE Primary School	27.2%	23.2%	23.2%	23.2%
44	Hartsbrook E- ACT Free School	17.6%	16.2%	16.2%	16.2%
45	St Thomas More	30.8%	22.3% plus £30,000	22.3% plus £31,000	22.3% plus £33,000

* Haringey Council and Homes for Haringey will initially pay contributions of 23.9% for 2014/15, 24.4% for 2015/16 and 24.9% for 2016/17. If these total rates contribute less than the rates certified above (made up of a percentage of pay and cash contribution) then the amount to be paid will be adjusted accordingly. This will be monitored on a quarterly basis.

This page is intentionally left blank

London Borough of Haringey Pension Fund
Funding Strategy Statement

March 2014

Contents

DRAFT Funding Strategy Statement PAGE

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 7

Haringey Council

Report for:	Corporate Committee 20th March 2014	**Item number**	

Title:	Pension Fund Statement of Investment Principles

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 The Investment strategy was revised at the January meeting. The Statement of Investment Principles has been updated to reflect the changes in strategy and approval is requested from the Committee.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Committee agree the updated Statement of Investment Principles.

4. Other options considered

4.1 None.

5. Background information

5.1 The Statement of Investment Principles ("SIP") sets out the principles governing the Haringey Council Pension Fund's decisions about the

Haringey Council

investment of Pension Fund money. It is prepared in accordance with Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

5.2 At the January meeting, the Committee agreed to include allocations to infrastructure debt and multi sector credit within the investment strategy. The SIP has been updated to reflect these allocations. Track changes are used to highlight the proposed amendments.

5.3 The changes made to the SIP are:

a) The tables in section 5, 6, annex 1 and annex 2 have been updated to include the new mandates and the funding from the reduction in BlackRock equities.

b) Asset class ranges have been included. Without these, the portfolio will always be non compliant with the SIP.

c) Statements have been included that asset class allocations will be monitored against the ranges and rebalancing considered when appropriate i.e. rebalancing is not automatic.

d) The narrative on the management of liquidity (section 5) has been amended.

e) In section 6, the obligation for officers to meet with managers quarterly has been changed to a minimum of annually. Normally active managers are seen quarterly, but passive less frequently.

f) The statement on custody (section 12) reflects that the pension fund does not directly own individual stocks, bonds or properties.

g) Although the pension fund does not directly loan securities, the two passive equity managers do undertake this activity, with the pension fund benefiting from part of the income.

h) A section on the Committee's investment beliefs has been added (annex 4). The SIP is intended to set out the principles governing decision making. Investment beliefs are central to the setting and implementation of strategy. The key beliefs reflected in the strategy are that equities will outperform bonds in the long term and that active management does not add value in developed equity markets. The Committee is invited to consider whether they agree with the statements and whether others should be included.

Haringey Council

5.4 There are gaps in the draft SIP attached relating to the two new mandates that will be populated in advance of the Committee meeting.

6. Comments of the Chief Finance Officer & financial implications

6.1 The SIP is the formal documentation of the investment strategy. The changes agreed at the January 2014 meeting have been incorporated. The strategy targets an investment return that has been modelled as likely to eliminate the past service deficit over twenty years.

7. Head of Legal Services and Legal Implications

7.1 The Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 ("2009 Regulations") require the Pension Fund to prepare and keep under review a Statement of Investment Principles. This is a document which sets out the Fund's approach to investing and related matters.

7.2 The Council as administering authority has the authority to invest the Pension Fund monies. The monies must be invested in accordance with the 2009 Regulations.

7.3 Regulation 11 requires the Council as administering authority to formulate a policy for the investment of the Pension Fund monies. That policy must be formulated with a view to (a) the advisability of investing monies in a wide variety of investments and (b) the suitability and types of investments.

7.4 Regulation 12 requires the Council as administering authority, after consultation with such persons as it considers appropriate, to prepare and maintain a written statement of principles. That statement must cover the following:
(a) the types of investments to be held;
b) the balance between different types of investments;
c) risk
d) the expected returns;
e) the realisation of investments;
f) social, environmental or ethical considerations;
g) the exercise of the rights attached to investments;
h) stock lending; and
i) compliance or not with Secretary of State guidance.

Haringey Council

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

Appendix 1: Statement of Investment Principles

12 Local Government (Access to Information) Act 1985

12.1 Not applicable.

Haringey Council

Statement of Investment Principles

1 Introduction

This Statement of Investment Principles document sets out the principles governing the Haringey Council Pension Fund's decisions about the investment of Pension Fund money. It is prepared in accordance with Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

2 Governance and decision making

Haringey Council is the Administering Authority for the Local Government Pension Scheme in the London Borough of Haringey area and as such is responsible for the investment of Pension Fund money. The Council has delegated this responsibility to the Corporate Committee.

The Committee is responsible for setting the investment strategy for the Pension Fund, appointing fund managers to implement it and monitoring the performance of the strategy. The Committee retains an independent adviser and the services of an investment consultancy company, in addition to the advice it receives from the Chief Financial Officer and their staff.

Further information on the governance of the Pension Fund can be found in the Governance Compliance Statement on the website www.haringey.gov.uk/pensionfund

Stock level decisions are taken by the investment managers appointed by the Committee to implement the agreed investment strategy. These decisions are taken within the parameters set out for each manager – more detail is provided in section 6 below.

3 Objectives of the Pension Fund

The primary objective of the Pension Fund is:

- To provide for members' pension and lump sums benefits on their retirement or for their dependants benefits on death before or after retirement on a defined benefits basis.

Haringey Council

The investment objective of the Pension Fund is:

- To achieve a return on Fund assets that is sufficient, over the long term, to meet the funding objectives.

The Pension Fund recognises that the investment performance of the Fund is critical as it impacts directly on the level of employer's contributions that the employers are required to pay.

The key funding objectives that relate to investment strategy are summarised below and more detail about them and how they will be achieved can be found in the Pension Fund's Funding Strategy Statement on the website www.haringey.gov.uk/pensionfund

- To ensure the long-term solvency of the Fund;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment; and
- Not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.

This Statement of Investment Principles describes how the Haringey Council Pension Fund seeks to meet its objectives.

4 Investment Parameters

The investment strategy of the Pension Fund must operate within the parameters set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the regulations"). The regulations state that the Pension Fund must invest any monies not needed immediately to make payments.

The regulations also state that the Pension Fund must have regard to the suitability and range of investments used and take proper advice in determining its investment strategy. These issues are covered in more detail in sections 5-7 below.

The limits within which the Pension Fund operates are shown overleaf. All the limits are the lowest set by Schedule 1 to the regulations with the exception of the single insurance contract limit The Committee has exercised its right to increase its limit for a single insurance contract limit within the range set by the regulations. This was done, after taking proper advice, in order to maximise the diversification and performance of the Fund's assets while minimising the costs to the Pension Fund.

Haringey Council

Type of Investment	Limit
Any single sub-underwriting contract	1%
All contributions to any single partnership	2%
All contributions to partnerships	5%
The sum of all loans (except a Government loan) and all deposits with local authorities	10%
All investments in unlisted securities of companies	10%
Any single holding (except unit trusts & UK gilts)	10%
All deposits with any single institution	10%
All sub-underwriting contracts	15%
All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body	25%
All investments in open ended investment companies where the collective investment schemes constituted by the companies are managed by one body	25%
All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes are constituted by those companies are managed by any one body.	25%
Any single insurance contract	35%*

* This limit is at the higher limit of the range (25-35%) laid down in the regulations.

5 Types of investments

The Committee has determined an overall asset allocation for the Pension Fund to meet the objectives within the parameters set out in section 4 above and to comply with the regulations. The Committee have considered the suitability of different investments and the need to diversify the investments to reduce risk. The Fund's revised strategic benchmark is shown in the table overleaf.

Haringey Council

Asset class	Benchmark %		Range %
UK Equities		15	12-18%
Overseas Equities		45	40-50%
North America	21.7		
Europe ex UK	7.4		
Pacific ex Japan	3.4		
Japan	3.5		
Emerging Markets	9		
UK Index linked gilts		15	12-18%
Property		10	6-12%
Multi Sector Credit		5	4-6%
Infrastructure Debt		5	4-6%
Private Equity		5	4-6%
Cash		0	0-10%

The Committee's investment strategy was set following the results of the 2013 actuarial valuation of the Pension Fund and takes into consideration the value and timing of projected future benefit payments, the funding position and the range of possible future economic and financial conditions. The strategy aims to achieve the objectives set out in section three and balance the need to achieve full funding and maintain stability of contribution rates. Normally, a full review of the investment strategy is undertaken every three years following an actuarial valuation. The factors influencing the investment strategy are monitored and changes thereto may require more frequent reviews of the investment strategy.

The allocations to each asset classes will be impacted by changes in market value, income reinvested and cash investments and withdrawals. The Committee will monitor actual allocations against the ranges shown above and rebalance when considered appropriate.

In setting investment policy the Committee has discussed their investment beliefs (annex D), which inform the setting of strategy and its implementation, including manager selection.

Haringey Council

The Committee has decided to invest the majority of the Pension Fund investments in passively managed equity and bond funds to remove the risk of underperformance and ensure benchmark performance at a low cost.

Due to the size of the portfolios allocated to the investment managers, the investments are generally held in pooled funds, which are more cost effective for the Fund.

The majority of the investment types the Committee have decided to invest in are quickly realisable if required, including pooled equities, as the underlying securities are quoted on major markets. The investments in property, multi sector credit, infrastructure debt and private equity, which represent 25% of the strategic allocations, are long term less liquid investments not designed to be realised early. At the present time the Pension Fund has sufficient regular cash receipts to cover benefit payments and does not need to realise investments quickly. As the Pension Fund matures, income from equity investments is available to meet expenditure.

The asset allocation and associated benchmark is expected to produce a return in excess of the investment return assumed in the actuarial valuation over the long term.

6 Investment Management arrangements

The Committee has appointed a number of external investment managers to implement its investment strategy. The current investment managers and the percentage of the Pension Fund they currently manage are shown in the table below:

Investment Manager	Mandate	%
BlackRock Investment Management	Global Equities & Index linked Bonds	47.2
Legal & General Investment Management	Global Equities & Index Linked Bonds	27.8
TBC	Multi Sector Credit	5
TBC	Infrastructure Debt	5
CBRE Global Investors	Property	10
Pantheon	Private Equity	5

A range of investment managers have been appointed to diversify the Pension Fund and so reduce the risk of poor performance. The allocations above reflect the asset class benchmarks shown in section 5.

Haringey Council

Movements away from benchmarks and rebalancing are managed at asset class level for which monitoring ranges have been set.

The equity and index linked bond investment managers are expected to perform in line with their benchmarks, as they are investing on behalf of the Fund on a passive basis. The detail of their benchmarks is set out in Annex B. The other investment managers are expected to meet the targets set above the benchmarks detailed in Annex A over the long term.

The investment managers' performance is assessed on a quarterly basis, with independent performance data provided by the Pension Fund's global custodian Northern Trust. The Chief Financial Officer and/or their representative meet with the investment managers on an annual or more frequent basis to discuss performance.

The investment managers are paid fees relating to the value of the funds they are managing on the Pension Fund's behalf, or in the case of private equity on the amount committed. In some case e.g. private equity an additional performance related fee based is also payable.

There will always be a balance of cash used to manage benefit payments invested in-house and there may be occasions when the Committee decide to invest in cash on a short term basis. These investments will be placed in line with the Treasury Management Strategy Statement in place at the time.

7 Advice

The regulations set out the requirement for the Pension Fund to obtain proper advice at reasonable intervals. The Committee has three sources of advice independent of the investment managers used by the Pension Fund:

- Chief Financial Officer and their staff
- Investment Consultant – Mercer
- Independent Adviser – John Raisin

The Chief Financial Officer (or their representative) attends all Committee meetings to support the Committee to scrutinise both the performance of the investment managers and the investment consultant. The Investment Consultant and Independent Adviser attend Committee meetings as required.

Haringey Council

8 Risk

The Pension Fund's investment strategy has an inherent degree of risk which has to be taken in order to achieve the rate of return required. The Pension Fund has put in place a number of controls in order to minimise the level of risk taken.

The benchmark the Committee has set involves a wide range of asset classes and geographical areas. This diversification reduces the risk of low returns. As the majority of the Fund is invested on a passive basis, risk of underperforming the benchmark has been significantly reduced.

Appointing a range of investment managers ensures that the risk of underperformance is reduced through diversification.

9 Responsible ownership

The Committee has agreed a responsible investment policy, which can be found on the website www.haringey.gov.uk/pensionfund

The Pension Fund believes the adoption by companies of positive Environmental, Social and Governance principles can enhance their long term performance and increase their financial returns. The Pension Fund has demonstrated this by adopting the United Nations Principles for Responsible Investment and by being a member of the Local Authority Pension Fund Forum, which undertakes engagement activity with companies on behalf of its members.

The investment managers are expected to consider responsible investment issues when voting on behalf of the Pension Fund. However in instances where shareholder value and responsible investment conflict, the investment managers are instructed to vote for shareholder value and report these instances to the Committee. All investment managers are expected to vote in respect of all pooled funds.

10 Compliance with Myners Principles

The regulations require Local Government Pension Funds to state in their Statement of Investment Principles the extent to which the Fund's investment policy complies with published guidance on the Myners Principles. The Myners principles are a set of principles on investment decision making for occupational pension schemes. The Pension Fund

Haringey Council

complies with all of these principles. The detail of the principles is set out in Annex D.

11 Additional Voluntary Contributions (AVCs)

The Pension Fund is required to provide scheme members with the opportunity to invest additional voluntary contributions. These are invested separately from the Pension Fund's other assets and the scheme members take the investment risk.

AVCs are invested with Prudential Assurance, Clerical & Medical and Equitable Life. Scheme members can choose which company to invest with (except Equitable Life, which is not open to new members) and select from a range of policies to suit their appetite for risk.

12 Other issues

Custody – The Pension Fund's assets are held by an independent global custodian, Northern Trust. The performance and fees for their contract are reviewed regularly. As the Pension Fund does not directly own equities, bonds or properties, custody activity is limited to controlling cash, valuation record keeping and performance analysis.

Stock Lending – The Pension Fund does not undertake any stock lending activities. However, the pooled funds operated by both Legal & General and BlackRock do engage in stock lending and the Pension Fund receives a share of the revenue generated.

Review process – This document is reviewed by the Committee on an annual basis and whenever any major change to the investment strategy is undertaken to ensure it remains up to date.

Publication – This document is published on the Haringey Council Pension Fund website www.haringey.gov.uk/pensionfund and forms part of the Pension Fund Annual Report.

Annexes

A Investment managers and mandates
B Global Equity & Bond benchmarks
C Compliance with Myners principles
D Investment beliefs

Haringey Council

Annex A: Investment Managers and mandates

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
BlackRock Investment Management	47.20%	Global Equities & Bonds	See below	Index (passively managed)
Legal & General Investment Management	27.80%	Global Equities & Bonds	See below	Index (passively managed)
TBC	5.00%	Multi Sector Credit	TBC	TBC
TBC	5.00%	Infrastructure Debt	TBC	TBC
CBRE Global Investors	10%	Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period
Pantheon Private Equity	5%	Private Equity	MSCI World Index plus 5%	+ 0.75% gross of fees p.a.
Total	**100%**			

Haringey Council

Annex B: Global Equity & Bond Benchmarks

Asset Class	**Benchmark**	**BlackRock Investment Management**	**Legal & General Investment Management**	**Total**
UK Equities	FTSE All Share	12.40%	2.60%	15.00%
Overseas Equities		22.80%	22.20%	45.00%
North America	FT World Developed North America GBP Unhedged	17.90%	*3.80%*	21.70%
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	3.10%	*4.30%*	7.40%
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	1.40%	*2.00%*	3.40%
Japan	FT World Developed Japan GBP Unhedged	0.40%	*3.10%*	3.50%
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	0.00%	*9.00%*	9.00%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	12.00%	3.00%	15.00%
		47.20%	27.80%	75.00%

Haringey Council

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

Haringey Council

Annex C: Compliance with Myners Principles

1. Effective Decision Making
Administering authorities should ensure that: • *decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation;* *and* • *those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.*
Haringey position Haringey offers regular training to all members of the Committee to ensure they have the necessary knowledge to make decisions and challenge the advice they receive.
2. Clear Objectives
An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.
Haringey position The Pension Fund sets out an investment objective in section 2 of this Statement of Investment Principles, which reflects the current deficit position of the Pension Fund and the desire to return to full funding with a minimum impact on the local tax payer. The Statement of Investment Principles is provided to all the Pension Fund's advisers and investment managers whenever it is updated.

Haringey Council

3. Risk and Liabilities
In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.
<u>Haringey position</u> The Committee's investment strategy was set following the results of the last formal valuation of the Pension Fund, which incorporated these issues.
4. Performance Assessment
Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. *Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.*
<u>Haringey position</u> The Committee reviews the performance of Pension Fund investments on a quarterly basis and meets with investment managers at least once a year. Contracts with advisers are reviewed regularly. The Committee undertakes an assessment of their own effectiveness on a regular basis.

5. Responsible ownership
Administering authorities should: • *adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents* • *include a statement of their policy on responsible ownership in the statement of investment principles* • *report periodically to scheme members on the discharge of such responsibilities.*
Haringey position The Pension Fund's fund managers have adopted or are committed to the Institutional Shareholders' Committee Statement of Principles. The Pension Fund includes a statement of their policy on responsible ownership in section 9 of this Statement of Investment Principles. This is monitored on a quarterly basis through the Committee and reported to scheme members through the annual report to scheme members.
6.Transparency and reporting
Administering authorities should: • *act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives* • *provide regular communication to scheme members in the form they consider most appropriate.*
Haringey position The Pension Fund communicates with its stakeholders through the publication of policy statements and an Annual Report on its website. The Pension Fund communicates regularly with its scheme members and the communication policy statement provides information about how this is done.

Haringey Council

Statement of Investment Belief's

The objective of this Statement is to set out the key investment beliefs held by the Corporate Committee (the Committee) of Haringey Council. These beliefs will form the foundation of discussions, and assist decisions, regarding the structure of the Haringey Pension Fund, strategic asset allocation and the selection of investment managers.

The Investment beliefs have been prepared by the administering authority in consultation with the Independent Advisor and Investment Consultant. In forming these beliefs the Committee take into consideration the ongoing advice received from Officers and Advisors.

1) Investment Governance

a) The Fund has the necessary skills, expertise and resources to take decisions on asset allocations, rebalancing and fund manager appointments.

b) Day to day investment decisions are delegated to regulated external fund managers that have appropriate skills & experience.

c) Investment consultants, independent advisors and officers are a source of expertise and research to inform Committee decisions.

d) The Committee primary goal is the security of assets and will only take decisions when the Committee is convinced that it is right to do so. In that regard, training in advance of decision making is a priority.

Haringey Council

2) Long Term Approach

a) The strength of the employers' covenant allows a longer term deficit recovery period and for the Fund to take a long term view of investment strategy.

b) The most important aspect of risk is not the volatility of returns but the risk of absolute loss and of not meeting the objective of facilitating low, stable contribution rates for employers.

c) Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term markets.

d) Participation in economic growth is a major source of long term equity return.

e) Over the long term, equities are expected to outperform other liquid assets, particularly government bonds.

f) Well governed companies that manage their business in a responsible manner will produce higher returns over the long term.

3) Appropriate Investments

a) Allocations to asset classes other than equities and government bonds (e.g. corporate bonds, private equity and property) offer the Fund other forms of risk premia (e.g. additional solvency risk/illiquidity risk).

b) Diversification across asset classes and asset types will tend to reduce the volatility of the overall Fund return.

4) Management Strategies

a) Passive management provides low cost exposure to asset class returns and is especially attractive in efficient markets where there is limited evidence that active management can consistently generate returns (after additional costs) that exceed index benchmarks. Most equity markets are sufficiently efficient to prefer passive equity investments.

b) Active management will only be considered in markets in which passive approaches are either impossible or there is strong evidence that active management can add value over the long-term. Fixed income, property and alternatives are suited to active management.

c) Active managers are expensive and fees should be aligned to the value created in excess of the performance of the market.

d) Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.

e) Implementation of strategies must be consistent with the governance capabilities of the Committee.

This page is intentionally left blank

Agenda Item 8

Haringey Council

Report for:	**Corporate Committee** 20 March 2014	**Item number**	

Title:	**Pension Fund Quarterly 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 To report the following in respect of the three months to 31st December 2013:

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

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the information provided in respect of the activity in the three months to 31st December 2013 is noted.

4. Other options considered

4.1 None.

Haringey Council

5. Background information

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

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

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

6. Comments of the Chief Financial Officer and Financial Implications

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

7. Head of Legal Services and Legal Implications

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

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

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

Haringey Council

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

8. Equalities and Community Cohesion Comments

8.1 The Local Government Pension Scheme is a defined benefit open scheme enabling all employees of the Local Authority to participate. There are no impacts in terms of equality from the recommendations contained within this report.

9. Head of Procurement Comments

9.1 Not applicable

10. Policy Implications

10.1 None.

11. Use of Appendices

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

12. Local Government (Access to Information) Act 1985

12.1 Not applicable

Haringey Council

13. Investment Update

13.1 Fund Holdings at 30th September 2013

Total Portfolio Allocation by Manager & Asset Class

31/12/2013 & 31/01/2014

	Value 30.09.13 £'000	Value 31.12.13 £'000	Value 31.01.14 £'000	Allocation 30.01.2014 %	Strategic Allocation %
Equities					
UK	184,423	176,383	170,980	19.7%	17.5%
North America	211,889	255,655	248,746	28.7%	25.3%
Europe	84,705	82,680	80,335	9.3%	8.6%
Japan	41,571	35,741	34,650	4.0%	4.1%
Asia Pacific	33,314	35,762	34,081	3.9%	4.0%
Emerging Markets	89,966	89,426	84,078	9.7%	10.5%
Total Equities	**645,868**	**675,647**	**652,870**	**75.3%**	**70.0%**
Bonds					
Index Linked	**119,051**	**117,958**	**120,037**	**13.8%**	**15.0%**
Property					
CBRE	**54,239**	**56,691**	**56,478**	**6.5%**	**10.0%**
Private equity					
Pantheon	**34,156**	**34,527**	**34,190**	**3.9%**	**5.0%**
Cash & NCA	**6,999**	**5,883**	**4,438**	**0.5%**	**0.0%**
Total Assets	**860,313**	**890,706**	**868,013**	**100.0%**	**100.0%**
Fund Managers					
Legal & General	244,638	248,821	239,659	**27.6%**	**29.3%**
BlackRock	520,281	544,784	533,248	**61.5%**	**55.7%**

Haringey Council

The value of the portfolio increased by £7.7 million between September 2013 and January 2014. Equities gains were the main contributor to the market movements. During Q4, 2013 the final phase of the rebalancing of equity markets was completed.

The recovery in equity markets in the last two years has seen the equity weighting rise to 75.3%, in excess of its strategic weighting. The other asset classes, mainly property remain, underweight. The January 2014 Corporate Committee meeting agreed to rebalance property back to its strategic allocation of 10%, which will involve additional property investments of approximately £30 million funded from sales of equities.

14. Investment Performance Update: to 31th December 2013

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

14.1 Whole Fund

	Return	Benchmark	(Under)/Out
Oct-Dec 2013	3.72%	3.86%	(0.14%)
One Year	14.65%	15.82%	(1.17%)
Three Years	8.04%	8.30%	(0.26%)
Five Years	10.59%	11.43%	(0.84%)

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

14.2 BlackRock Investment Management

	Return	Benchmark	(Under)/Out
Oct-Dec 2013	4.71%	4.52%	0.19%
One Year	18.49%	18.91%	(0.42%)

- Total Value at 31/12/13: £544.8 million
- BlackRock manages equities and index linked passively.
- Further details of returns at geographic level are given in section 14.7, which indicates underperformance against the Japanese and North American indices, which is being investigated.

Haringey Council

14.3 Legal & General Investment Management

	Return	Benchmark	Variance
Oct-Dec 2013	1.72%	1.89%	(0.17%)
One Year	8.90%	9.71%	(0.81%)

- Total Value at 31/12/13: £248.8 million
- At investment level, L&G is able to add value over index benchmarks through timing transactions. As can be seen from section 14.7 below the underperformance over one year is due to their portfolio being out of alignment with the benchmark.

14.4 CBRE Global Investors

	Return	Benchmark	(Under)/Out
Oct-Dec 2013	4.44%	4.30%	0.14%
One Year	8.75%	9.52%	(0.77%)
Three Years	4.77%	6.04%	(1.27%)
Five Years	3.39%	5.61%	(2.22%)

- Total Value at 31/12/13: £56.7 million
- Although performance in the quarter exceeded benchmark for year CBRE have underperformed their benchmark by 0.8%. The target is to out perform by 1% p.a.
- Recently, the UK portfolio has exceeded benchmark, but the overall portfolio has suffered from exposure to Italian and German funds.
- Compared with the average Local Authority fund, the quarterly and annual (most recent data available) returns for CBRE exceeds the average by 0.6% and 1.0%.

14.5 Pantheon

	Return	Distributions in period	Drawdowns in period	% drawdown
Oct-Dec 2013	1.82%	£2.06m	£0.32m	
One Year	11.02%	£4.99m	£3.44m	
Since inception	3.94%	£7.43m	£32.80m	69.4%

- Total Value at 31/12/13: £34.5 million
- Distributions exceeded drawdowns during the quarter as the funds moved into the distribution phase of their cycles.
- The performance target is the MCSI Worlds plus 5.75%, which for 12 months is 31.14% and 3 years 15.51%. Actual returns for three ears net of fees is 15.3%. The funds are still relatively young for a true picture of long term returns to emerge. The performance benchmark (MSCI plus 5% net of fees) is challenging.
- Pantheon's one year return of 11.0% exceeds the local authority average by 1.9%. The underperformance against the private equity benchmark (-19%)

Haringey Council

represents nearly 1% at total portfolio and explains almost all the relative performance at total fund level.

14.6 In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 31/12/13	£0.92m	AAA	1	0.22%
At 30/09/13	£2.73m	AAA	1	0.33%
At 30/06/13	£3.18m	AAA	1	0.33%
At 31/03/12	£5.51m	AAA	1	0.31%

14.7 Equity Market Performance

	3 months		12 months			Allocations	
	Return	Benchmark	Return	Benchmark	Diff	Actual	Target
Legal & General							
UK Equity	5.48	5.46	21.00	20.81	0.19	9.28%	8.87%
North Amer equ	7.48	7.48	28.31	28.30	0.01	12.81%	12.97%
Europe equ	5.69	5.79	26.44	26.47	-0.03	15.46%	14.67%
Asia Pac equ	-1.13	-1.15	2.52	2.43	0.09	6.69%	6.83%
Japan	0.03	0.09	25.14	24.95	0.19	10.50%	10.58%
Emerging Mkts	-0.60	-0.69	-5.43	-5.29	-0.14	36.01%	35.84%
Index linked	-0.92	-0.93	0.64	0.58	0.06	9.25%	10.24%
total	1.71	1.89	8.91	9.71	-0.80	100.00%	100.00%
BlackRock							
UK Equity	5.49	5.46	21.10	20.81	0.29	28.13%	26.75%
North Amer equ	7.60	7.48	27.79	28.30	-0.51	41.07%	38.60%
Europe equ	5.82	5.79	26.67	26.47	0.20	8.10%	7.72%
Asia Pac equ	-0.93	-1.15	2.44	2.43	0.01	3.51%	3.57%
Japan	0.00	0.09	23.09	24.95	-1.86	1.76%	1.80%
Emerging Mkts							
Index linked	-0.92	-0.93	0.68	0.58	0.10	17.43%	21.56%
total	4.71	4.52	18.49	18.91	-0.42	100.00%	100.00%

The above table breaks down the performance of L&G and BlackRock at regional level. For 9 out of 13 regional / assets classes, performance exceeds the benchmark. The only significant underperformance is BlackRock's US and Japanese portfolios

Haringey Council

15. Responsible Investment Activity in the three months ended 31st December 2013

BlackRock	Legal & General	LAPFF
15.1 Environmental Issues		
	Lonmin Visited a mine in South Africa to better understand their relationship with employees, local communities and other sustainability issues. We met the new CEO along with senior executives, including Head of Mining. We discussed the relationship with the newly formed union, with respect to the latest pay negotiations, safety, community programmes and socio-economic backgrounds impacting their operations and housing for employees. We will continue to monitor mining companies regarding their operations in South Africa **Apache** L&G regularly engage with the company on various ESG issues and following the defeat of the company's say on pay vote, we discussed what the company could do better in terms of its compensation structure. We also discussed the progress they had made on integrating key	Focussed on 'stranded assets', carbon management strategies and climate change performance scores with BP. A meeting with Glencore Xstrata also initiated a discussion on these issues. Co-signed letters to major US, European and Japanese consumer companies in the palm oil supply chain on the sustainability of their supplies.

Haringey Council

BlackRock	Legal & General	LAPFF
	environmental and social risks into its compensation structure	

BlackRock	Legal & General	LAPFF
15.2 Governance / Remuneration Issues		
In light of the upcoming legal changes to executive remuneration in the UK, we have experienced a considerable increase during the quarter in the number of engagements with issuers on executive remuneration matters. Companies are in the midst of reviewing their remuneration arrangements and seeking shareholder feedback in anticipation for the introduction of the binding vote on their remuneration policy. Engaged with a number of issuers on succession planning, in a joint engagement with our portfolio management team, we met with the Chairman of a luxury goods company to discuss the succession plan carried out after the departure of its CEO. We sought to understand the process that had been in place to identify the successor and how this appointment would impact the business overall.	**JP Morgan** Discussed the significant unauthorised trading losses and the mechanisms the company has strengthened as a result of these failures. Also discussed was our preference for a split CEO and Chairman role and the company's actions to strengthen the risk committee **Renault** Participated in a meeting with the company to discuss board structure, independence levels, director tenures and mandates, the role of the Lead Independent Director and the combined CEO and Chairman role. Also discussed was the new shareholder vote on remuneration and what we as shareholders would expect to be	Sent a letter to Oracle outlining their concerns about executive pay. The Company lost its pay vote for the second year in a row, but the Board remains defiant. Met with Standard Chartered, M&S and Burberry to discuss remuneration issues and get company feedback on LAPFF's 'Expectations for Executive Pay' document. Corresponded with Afren, Easyjet and G4S regarding pay practices and pay complexity and to seek further meetings.

Haringey Council

BlackRock	Legal & General	LAPFF
Concluded our thematic engagement series on corporate responsibility and sustainability practices across the retail and grocer sector. We held a final meeting in the series with a UK grocer to discuss the company's sustainability programme, including the recent refocus to use their scale to push for change and the new CEO's focus on creating a sustainable business over the long-term. Significant time has been spent over the last year on engaging internal and external stakeholders to understand what the key concerns are and what the objectives for the programme should be. We also discussed the company's work with a number of industry bodies in furthering best practice. Similar to our previous findings, we believe that commitment throughout the organisation will determine the success of this new	disclosed	

BlackRock	Legal & General	LAPFF
15.3 Other Engagement activity		
The main themes for voting against management this quarter include board composition and the lack of sufficient independent oversight, poor remuneration practices and general share issuance requests in excess of recommended guidelines without sound rationale. This quarter saw an extraordinary shareholder meeting of a UK manufacturer of technology systems and components. The main issue was the vote on a share incentive plan for the incoming CEO. The one-off plan, which was proposed in addition to the agreed annual pay package upon appointment as CEO, had a number of features that were not considered to be in the interest of shareholders. These included a high level of matching shares vesting on the development of the share price, and the possibility for early vesting following a change of control, while not being time pro-rated. Given these conditions, it was decided to vote against the plan.	**RSA** Engaged with the board chairman who explained that PWC had been appointed to look at the control processes within the Irish insurance business after the disclosure of significant losses. The CEO resigned after the profit warning and the chairman said he would take on this additional role for up to a year while reviewing the company strategy. We will continue to engage with the company and monitor their performance	Explored the impact of governance changes at Twenty-First Century Fox since the split from News Corporation and discussed the approach to the ongoing phone hacking scandal. Responded to a FRC consultation on the strategic report raising concerns about its status and compatibility with UK Company Law, and to a FRC consultation on directors' remuneration. Provided input to the SEC on pay ratio disclosure.

Haringey Council

16. Budget Management – nine months to 31st December 2013

	Prior year (9 mths) £'000	Actual £'000	Variance (under)/ overspend £'000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	6,600	6,408	(192)
Employer Contributions	24,000	22,244	(1,756)
Transfer Values in	3,000	1,770	(1,230)
Total Income	33,600	30,422	(3,178)
Expenditure			
Pensions & Benefits	(30,000)	(30,446)	(446)
Transfer Values Paid	(3,900)	(1,786)	2,114
Administrative Expenses	(600)	(459)	141
Total Expenditure	(34,500)	(32,691)	1,809
Net of Contributions & Benefits	(900)	(2,269)	(1,369)
Returns on investment			
Net Investment Income	2,700	1,800	(900)
Investment Management Expenses	(1,200)	(444)	756
Net Return on Investment	1,500	1,356	(144)
Total	**600**	**(913))**	**(1,513)**

Haringey Council

17. Late Payment of Contributions

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

Employer	Occasions late	Average Number of days late	Average monthly contributions(£)
Mulberry	1	8	14,500
TLC	1	4	4,183

18. Communication Policy

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

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

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

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

18.5 During the third quarter of 2013-14, one of the Council's AVC providers Prudential gave a presentation to staff on the services they offer. In December the Council met with the other employer bodies participating in the Fund, to share information on the 2014 actuarial valuation exercise and to provide a brief outline on the new scheme to be introduced from April 2014.

Haringey Council

Appendix 1 – Investment Managers mandates, benchmarks and targets

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

Haringey Council

.

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

This page is intentionally left blank

Agenda Item 9

Haringey Council

Report for:	Corporate Committee 20th March 2014	**Item number**	

Title:	Pension Fund: London Collective Investment Vehicle

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** Key /Non Key Decision N/A

1. Describe the issue under consideration

1.1 The Committee agreed at the September 2013 meeting to contribute up to £25,000 towards the costs of establishing a Collective Investment Vehicle ("CIV") for London LGPS that aimed to assume responsibility for the appointment of fund managers. The establishment of a CIV is designed to reduce investment management fees and also to improve performance for those funds that select active fund management. This report summarises progress in establishing the CIV.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the Committee note progress towards the establishment of a London Collective Investment Vehicle.

Haringey Council

4. Other options considered

4.1 The Society of London Treasurers has considered a range of options for increased collaborate working in London to enhance the efficiency of individual London Funds. A report was commissioned from the accountancy firm PWC in 2012 to look at a range of options including business as usual to a full blown merger. The options set out were:

- Shared procurement – easy to implement, but relatively low impact and savings limited
- Shared procurement with fund manager oversight – relatively easy to implement, savings higher than option 1, but still not significant
- Collective Investment Funds – less easy to implement, but significant potential for cost savings, whilst at the same time enabling funds to maintain local governance of funds
- Scheme merger of London funds – whilst cost savings are high, this would be very difficult to implement and would have a major impact on local accountability and governance.
- Centralised administration – again cost savings would be high, but issues around accountability and governance.

5.2 Consideration of the options led to the decision to explore ways of working more closely together to develop a collective investment vehicle for pension funds in London to achieve benefits of scale, bringing cost savings, but maintaining local decision making, governance and accountability.

5. Background information

5.1 In recent years there have been a number of discussion papers supported by academic research that has intimated that the LGPS would be more efficient if it was operated as a smaller number of larger funds. It has been argued that those larger funds would have lower unit administration costs and have better investment returns.

5.2 The Government initiated in summer 2013 a Call for Evidence of the impact of different LGPS structures in London with ministers indicating that they believe the current structure was sub optimal. In response, London Councils have been discussing closer working arrangement that can achieve the fee savings and performance improvements sought by the Government, without merging individual funds. As yet there has been no Government announcement from the Call for Evidence.

5.3 Discussions across London at Leader and CFO level have concluded that a collective Investment Vehicle (“CIV”) that takes responsibility for

Haringey Council

the identification of fund managers and the negotiation of fees for London funds can achieve the above goals.

5.4 The Committee discussed their willingness to participate in a CIV at the September 2013 meeting and agreed (a) to support further investigations into the potential establishment of a London-wide Collective, and (b) approve expenditure of up to £25,000 as a contribution towards the legal and other related costs in connection with the possible establishment of the CIV. The approved expenditure on set up costs has been paid to London Councils.

5.5 The London Councils Leaders' Committee has approved the detailed business case for the CIV and a proposed governance structure. They have also approved that a London Local Government Pension Scheme (LGPS) CIV in the form of a UK based, Financial Conduct Authority (FCA) approved, Authorised Contractual Scheme (ACS) be set up.

5.6 At the present time each Council is being asked to approve, through its Cabinet, participation in the structure, investment of £1 in share capital and nomination of a member to sit on a joint committee designed to represent the Council's interest as shareholder. There is no commitment to contribute further share capital nor to invest any funds in the CIV. Decisions on whether to invest pension assets in the CIV will be matters for the Council as trustee and administering authority of the pension fund, to be decided at a date in the future. Cabinet approval is being sought only to establish the CIV structure in order that regulatory authority can be applied for to carry out the planned activities.

5.7 Initially the CIV is targeting assets of £5 billion, mainly passive equities. Over time, it is expected that actively managed mandates and investments into alternatives such as property and infrastructure assets may be added to the range of investments offered by the ACS.

5.8 The London Councils Leaders Report sets out the likely Governance structures and key principles. The principles include: investment in the CIV should be voluntary; ability to choose how much to invest in individual asset classes; boroughs should have sufficient control over the CIV Operator, who would provide regular information to participating boroughs; and Authorities seeking to invest in the CIV will also take a shareholding interest in the Operator (and have membership of the Pensions CIV Joint Committee). This Joint Committee will be established under the existing London Councils arrangements to represent the participating borough's shareholder interest, such as assisting in the appointment of directors to the CIV Operator. The Pensions CIV Joint Committee will comprise elected Councillors nominated by participating boroughs as provided for under

Haringey Council

the existing London Councils Governing Agreement. The London Council's report proposes that in the event that all 33 boroughs decide to join then the existing London Councils Leaders Committee can undertake the role of the joint committee.

5.9 In that event that all boroughs do not participate it is nevertheless recognised that typically the borough Leader might be appointed as the representative on the joint committee. However, for meetings that deal with specialist matters, it may be appropriate that a member with particular expertise e.g. Chair of the Pensions Committee would act as deputy and attend such meeting.

5.10 As mentioned above, the setting up of the CIV is an executive function for Cabinet to determine. However, the Committee should be comfortable with progress and their eventual willingness to consider participation.

5.11 Attached to this paper for further information is a Q&A paper prepared by the London Councils. In the Q&A paper the CIV is referred to as an Authorised Contractual Scheme ("ACS"), which is the proposed legal structure.

6. Comments of the Chief Financial Officer and financial Implications

6.1. London Councils have considered in detail the business case for the establishment of a CIV and the potential for cost savings for Pension Funds across London. The proposals have received wide spread support from London Boroughs being prepared to commit funds to see the CIV established.

6.2. There is the potential to see significant financial benefits from greater collaboration amongst pension funds and the formation of a CIV will enable these to be delivered without the need for merger which itself could prove to significantly increase costs in the short term. It has been estimated that cost savings across London under a CIV could be as high as £120m and it is anticipated would help to deliver some of the savings that CLG are seeking from LGPS funds. The benefits of the CIV are that it will enable the cost savings to be delivered whilst continuing to enshrine the key objectives of maintaining local accountability and decision making for individual local authority pension funds. A collaborative approach provides opportunities to potentially invest in types of assets that smaller individual funds may not be able to easily access, for instance direct investment in appropriate infrastructure projects, which is also a particular focus for the current government.

6.3 There are clearly risks attached to the project given that funds need to be committed to establish the CIV, £25,000 to date, however these are

Haringey Council

relatively minor in the context of a £900 million pension fund and would clearly be offset by the cost savings which can be delivered going forwards. The risks of inaction or non-participation in this collaborative venture are seen as far more significant, particularly if the outcome were to be a merger of funds which could see decisions being taken by external bodies and resulting in loss of accountability and potential to increase costs to local taxpayers.

7. Assistant Director of Corporate Governance and Legal Implications

7.1 This report asks the Corporate Committee to note the progress on the establishment of a London Collective Investment Vehicle.

7.2 Cabinet will be asked to agree to the establishment of a company to operate the scheme, to contribute £1 initial share capital and to nominate an elected member to sit on the joint committee to represent the Council's shareholder interest.

7.3 There are no specific legal implications arising out of this report.

8. Equalities and Community Cohesion Comments

8.1 The Local Government Pension Scheme is a defined benefit open scheme enabling all employees of the Local Authority to participate. There are no impacts in terms of equality from the recommendations contained within this report.

9. Head of Procurement Comments

9.1 Not applicable

10. Policy Implications

10.1 The Coalition Government, since coming to power has undertaken a review of public sector pension schemes, leading to a number of major changes including changes to the benefits structures not only for the LGPS but also for Teachers, Civil Servants, Fire Brigades, etc. The objectives for reform are to maintain good quality pension schemes for those working in the public sector whilst looking to reduce the costs of the schemes including the administration of such schemes. Following on from this has been a 'Call for Evidence' from Communities and Local Government to consider the most appropriate structure for the LGPS going forwards. The Minister responsible for the LGPS, Brandon Lewis has made it very clear that he does not believe that the status quo is an option and has sought additional professional evidence to look at the potential costs and savings from a range of options which include merger of funds or collective investment vehicles. The outcome

Haringey Council

of the ‘Call for Evidence’ and a consultation on the future structure of the LGPS is expected over the coming months.

10.2 LGPS funds themselves have independently been looking at ways of reducing costs and working more collaboratively to bring about the benefits that can be achieved by closer working whilst ensuring that funds retain the local decision making and accountability.

11. Use of Appendices

11.1 Appendix 1 – Q&A

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

Haringey Council

Appendix 2

London LGPS CIV Seminar
5th February 2014

Summary of Questions and Answers

Introduction

The s.151 officers and pension officers from many of the London Boroughs met on 5th February 2014, to discuss the Pension Working Group's report to Leaders' Committee on the progress of the project to develop a Collective Investment Vehicle (CIV). The session addressed a number of questions from officers, with the key area of discussion around governance issues. A summary is set out below.

Aspects of the report

1. **Regarding the recommendations, should the decisions be made by local pension committees rather than at full council meetings?**

   [Deleted – out of date.]

2. **How many positive responses from boroughs are required to continue the project?**

   London Councils would require sufficient quantum and enthusiasm for the project in order to continue to act on behalf of the London boroughs collectively; however there is no set number of responses required.

   Nevertheless, we are mindful of the local elections, and how this may affect each borough's ability to reach decisions, and the position will be monitored over the coming weeks.

   For boroughs that cannot reach a decision now, the option to join later will always remain open.

   [**NB**. The positive response received to the report at the 11 February Leaders' Committee meeting makes it easier for London Councils to continue in its facilitation role.]

3. **How concrete is the proposed timeline for the launch of the ACS and ACS operator in order to take things forward?**

   The proposed timeline shows the possible time it may take to launch the ACS and the ACS Operator, and the work that needs to be completed. There is a minimum period of time that will be required to negotiate contracts and prepare FCA applications, and the amount of time the FCA

Haringey Council

may take to consider the application can vary (it is likely that the FCA will require 6 months to review the applications for the ACS and the ACS Operator although it cannot be guaranteed that both applications will be reviewed concurrently). As such, the timeline is only indicative, but based on previous experience it is a reasonable estimate.

4. **The report suggests £5bn of assets is a sensible target. If the £5bn threshold is not achieved what are the implications?**

   Analysis has suggested that £5bn of asset within the fund would be a sensible target to achieve the economies of scale which have previously been identified; however it is not a critical target size. If the fund size is smaller, the costs would increase per borough, as each borough would pick up a larger share, but this does not mean the costs would outweigh the benefits. Again, this will need to be monitored as the project progresses.

The proposed structure

5. **The report is brief on the benefits of the ACS itself. Why is the ACS vehicle considered most appropriate?**

   There are a number of advantages of using an ACS for the fund, including:

   - It is tax efficient e.g. for VAT there is an exemption on investment management fees, ensuring that VAT costs do not increase for the boroughs.
   - As the ACS is tax transparent, the withholding tax benefits the pension funds are currently entitled to can be maintained.

   It is also worth noting that the ACS structure was developed by HM Treasury, and launched last year, as an attractive alternative to other similar vehicles based in Ireland and Luxemburg. As such, they are very interested, and broadly supportive, of our proposals.

   The selection of an ACS as the most appropriate fund vehicle was set out in greater detail in a previous report to Leaders.

6. **Will the nominated interim directors have the required skills and qualifications to fulfil the role of directors in the ACS Operator?**

   One point to emphasise is that the interim board of directors is not intended to remain in place after FCA authorisation. It is temporary. It is there to steer the initial set up phases to assist in progressing the detailed work. The suggested interim directors are current Pensions Working Group members and have been involved in this project from an early stage.

Haringey Council

The interim directors will be representing you and the company to facilitate it being established. Going forward new appointments will be made from candidates who are confirmed as suitable by the FCA. Selecting who these individuals may be, and deciding on the selection process, will be one of the tasks for the next phase of work.

7. What are the risks associated with the ACS?

This model is an authorised scheme by the FCA and so is heavily regulated. It is more highly regulated than similar funds in both Ireland and Luxembourg. As such, the risks are as if you were to make any normal investment. These risks include:

- Incorrect valuations
- Holding misrepresented on the register
- Fraud

These risks will exist in the fund. However there will be controls in place to mitigate these risks. This involves both legal clauses in contracts, and having the people with the correct skills, knowledge and expertise to manage the fund.

Regarding tax risk, the key tax risk is that the pension fund's investments are less tax efficient than they would have otherwise been. HMRC have provided assurances with regards to this vehicle to seek to provide comfort, for example, by confirming a VAT exemption on investment management fees.

8. What measures have been taken to prevent the ACS going bust? What would happen to the assets?

ACS operator is a limited liability company, in order to protect shareholders. It will have significant capital, which would mean that, although the ACS operator could be closed down if the participating boroughs chose to, it is very difficult for it to go bust. This is because the London boroughs will own the entity and so will control it as shareholders. The ACS will only have a maximum of 33 'clients' and so will be acutely client focussed in its approach.

The assets would be protected legally since they will be ring-fenced through the corporate entity, the ACS operator company. If the decision was made to close down the ACS the current value of the investments made would be returned to investors (subject to payment of any charges and any change in value caused by movement in the market).

The board of directors of the company will be responsible for monitoring the performance of the funds and so will receive detailed reporting on a regular basis. As boroughs are involved, there should be sufficient

Haringey Council

warning if it is felt the ACS is not providing value and boroughs wish to remove their funds.

If action was taken to wind up the ACS, it should be noted that the FCA will not allow the participants in the ACS to drop to a level where all the costs of closure would be borne by a few remaining participating councils in the vehicle. If any such action was taken significant redemptions would be managed to prevent few investors suffering the closure costs involved.

9. **What assurances can you provide that HM Government will not intervene?**

   The risk of Government intervention must be taken into account, but London Councils have been maintaining active dialogue with the Department for Communities and Local Government. Nothing from this dialogue has given London Councils reason to believe that the current direction of travel will be stopped. London Councils believe the structure delivers much of what central Government are seeking to achieve. The Government are exploring the options for the reform of the LGPS, but it seems unlikely that any reforms will be mandated at this stage.

10. **How confident are we that the identified savings will be made?**

    A very high level summary of the potential savings and costs have been provided in the report delivered to Leaders. The savings included here are based on work previously undertaken by PwC.

    From some initial discussions in the market, it is considered that fund managers would be able to provide volume discounts due to the size of the fund.

    As an example, analysis of data provided by the councils to Wandsworth showed that 7 councils use the services of the same fund manager, which has an ad valorum fee, with a total investment of c £750m. If those councils had pooled their assets through the ACS, then by not each having to pay higher fees on the first part of their investment, the overall fee saving would have been approximately £750k p.a. This is a simple example from the initial analysis, but indicates that savings that can be made through the ACS structure.

    It was also noted that if the overall performance of the boroughs had been in line with the top performers, overall improved returns of close to £100m would have been achieved. Even if these mandates had been passive this could have resulted in a saving of £50m. These figures illustrate the potential benefit of a pooled approach, albeit future returns cannot be guaranteed.

11. **How will the CIV be better equipped at selecting the fund managers than the boroughs are now?**

Haringey Council

There is of course no guarantee to this. However, the vehicle will have a core staff team looking after the fund, taking advice, and being able to spend more time on analysis on a full-time basis, and not as a smaller part of an existing and already busy day job, as can be the case now.

12. How would mandates such as Infrastructure or Real Estate be governed? Is there a risk fund investments could be politicised?

As a regulated company the ACS will require a robust governance structure that recognises the need for close engagement with its 'clients', whilst ensuring that its investment decision making is independent.

Any mandates for alternative assets will be considered by the ACS Operator, and discussed with the boroughs (as 'clients') in advance of being offered. As investors, each borough Pension Committee will be able to choose whether to invest in such mandates (and any such decision will need to comply with any investment restrictions applicable to a borough).

Similarly, if a number of councils wanted to make investments with a particular strategy, for example ethical investments, it may be that the ACS could offer this as one of the options should there be sufficient interest, but it would be for each borough to choose if this was one of the mandates it would invest in.

Currently, the Government cannot control the mandates of a regulated fund such as this. Therefore, they would need to change regulation if they wanted to do this.

[NB. An infrastructure fund 'think piece' will be developed in the coming weeks for discussion with the Pensions Working Group and boroughs.]

13. Will boroughs need to go through a procurement exercise to invest in the ACS?

If the scheme is kept to just the 33 London councils, then there should not be a need for individual boroughs to undertake procurement. Legal advice will be shared on this point. If the fund is offered more widely this will need to be considered further, but only in the context of the impact on those other local authorities seeking to join.

If boroughs wished to market test the ACS by undertaking a procurement exercise they would of course be able to.

14. Is there a risk other investment managers would undercut the fees offered by the ACS in a procurement exercise?

The ideal scenario is that the market will support the ACS and undercutting does not happen, although it would demonstrate further that

Haringey Council

better value has been driven by the existence of the CIV. It should also be noted that fees are not the only consideration when undertaking procurement. It is considered there is not a comparable offering in the market, where the mandates available have been so tailored to the needs of the London boroughs.

15. If the government wants the structure to be adopted across the UK, what are the implications?

A number of authorities are watching the developments here in London. In terms of this ACS, it may be that you choose (as owners) that other non-London LGPS funds can come in as investors, however they would not be shareholders of the Operator, and as such would not participate in decision making in the same way the participating London boroughs would.

Haringey Council

Report for:	Corporate Committee 20th March 2014	**Item number**	

Title:	Pension Fund Investment in Recommended Investment Funds

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 Allocations to two new assets classes were agreed at the January 2014 meeting and officers were delegated to identify suitable investment funds for consideration by the Committee.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Committee agree to invest in the recommended investment funds that will be named at the meeting and delegate authority to the CFO and / or Assistant Director of Corporate Governance to complete all required documentation.

4. Other options considered

4.1 None.

Haringey Council

5. Background information

5.1 The January meeting of the Committee agreed to include allocations to infrastructure debt and multi sector credit within the investment strategy (appendix 1) and delegated authority to officers bring forward recommended funds. Each new mandate will be approximately £45 million.

5.2 The process to identify recommended funds is underway with presentations from short listed candidates held on 6th & 17 March. It is intended that details of the selected investment funds will be provided at the 20 March meeting. Presentations will be given by the two preferred funds in advance of the 20th March.

6. Comments of the Chief Finance Officer & financial implications

6.1 Delegated authority was received to recommend appropriate funds for the two new asset classes. The process has been reviewed by Legal and Procurement and has been conducted with support from Mercer and the Independent Advisor. At the time of writing the paper the appointment process is ongoing and the recommendations will be discussed at the Committee meeting.

7. Assistant Director of Corporate Governance comments 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 Council is seeking to invest in two investment funds based on the selection process outline in this report. The investment fund is set up under a trust deed and the Council will be a beneficiary under the trust. The investment of funds in this way does not raise any procurement issues.

8. Equalities and Community Cohesion Comments

8.1 Not applicable.

9. Head of Procurement Comments

9.1 Not applicable.

Haringey Council

10. Policy Implications

10.1 None.

11. Use of Appendices

Appendix 1: Investment Strategy Allocations
Appendix 2: Notes of Shortlisting Meeting (exempt)

12 Local Government (Access to Information) Act 1985

12.1 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 the business or financial affairs of any particular person (including the Authority holding that information).

13. Selection Process

13.1 Following the Committee's decision to invest in multi sector credit and infrastructure debt a process has been commenced to identify suitable funds. The steps in the process are set out below:

a) These types of investments are best suited to pooled investments, which are likely to incur lower all in costs than segregated mandates for the proposed portfolio values. In addition, investing through funds is treated as an investment rather than a fund manager appointment and entails less procurement rules.

b) The proposed selection process was cleared with Legal and Procurement Services.

c) Mercer's produced a long list of eight investment funds for each mandate using their manager ratings. Following discussion, four suitable candidates for each mandate were shortlisted to receive a questionnaire. One investment fund subsequently withdrew. Notes of the Shortlisting meeting are attached (appendix 2). Copies of Mercer's notes on each candidate are available from the Lead Officer.

d) While the selection process is outside of European procurement rules it does have to meet internal standards of objectivity, fairness, transparency and best value. To achieve these requirements a questionnaire and scoring system has been developed that will allow

Haringey Council

candidates' responses to be evaluated and a preferred fund identified for each mandate.

e) Presentations from the short listed investment funds took place on 6th March (Infrastructure debt) with a further presentation to be held on 17th March (Multi Sector Credit) at the offices of Mercer. The presentations are being used to confirm the responses to the tender questionnaire and also the scoring / preferred candidate.

f) Recommended funds will be discussed with the Committee on 20th March. Both recommended funds will be asked to present to Committee Member's immediately prior to the meeting.

g) Delegation is sought for the CFO (or Head of Legal Services) to complete the investments, including signing appropriate documentation.

13.3 The short listed funds selected are discussed below with further details in appendix 2. Both recommended funds will present immediately prior to the Committee meeting

14. Multi Sector Credit

14.1 After discussion of the eight investment funds identified by Mercer, the following four shortlisted candidates were agreed:

- BlueBay
- CQS
- Stone Harbor
- Wellington

14.2 The first three have the highest A manager rating from Mercer. Wellington is rated one level lower at B+; a classification that retains an above average expectation of out-performance. Wellington provided training to the Pension Working Group last December and being a global diversified fund manager group offer a different option to the other three more focused organisations.

14.3 All four funds have investment professionals based in the UK that allows greater visibility of the investment process.

14.4 As three of the four names are likely to be relatively unknown to the Committee, consideration was given to adding one or two additional B+ rated managers that have greater name recognition. The two possible candidates have significant concerns relating to team stability and investment process and it was agreed not to add to the shortlist.

Haringey Council

15. Infrastructure Debt

15.1 The three preferred investment funds are:

- Allianz
- Macquarie
- AMP

15.2 The funds selected were based both on their capabilities and experience of the sector but also on the availability of suitable funds.

15.3 Initially a 4^{th} candidate was selected, Westbourne, who indicated that they could accommodate an investment by Haringey. Subsequently, that position was reversed and they have no available investment opportunities. Discussions with Mercer indicated that there is a significant overlaps in the strategies of AMP and Westbourne and the three remaining candidates provide a good spread of strategies and a credible choice.

Haringey Council

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 Future
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
Infrastructure debt			5.0
Cash	0.3		
	100.0	100.0	100.0

Agenda Item 11

Haringey Council

Report for:	Corporate Committee 20th March 2014	**Item number**	

Title:	Treasury Management 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 treasury management development since 1st January 2014, in particular the recent sale of Icelandic deposits.

2. **Cabinet Member Introduction**

2.1 Not applicable.

3. **Recommendations**

3.1 That members' note the sale of Landsbanki deposits and the actions being taken with the remaining balances.

4. **Other options considered**

4.1 None.

5. **Background information**

5.1 The Corporate Committee receive quarterly updates on treasury activity, with the December 2013 quarter being reported to the January meeting. Since then, the outstanding claim relating to Landsbanki has

Haringey Council

been sold and this note updates the Committee on the sale and the remaining Icelandic balances.

6. Comments of the Chief Financial Officer and financial implications

6.1 Proceeds from the Icelandic bank claims have continued to exceed the previous prudent estimates. The cash loss is now estimated at £1,233,000 compared with the May 2013 estimate of £2,679,000. The timing of future distributions is dependent on when Icelandic exchange controls are lifted and the outcome of legal action between Icelandic banks.

7. Head of Legal Services and Legal Implications

7.1 Separate legal advice has been provided with regards the sale of the Landsbanki deposits and there are no further legal implications in respect of this report.

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 Icelandic Balances

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Icelandic Deposits

13.1 The Council held deposits of £37 million with three Icelandic banks that failed during October 2008. These were Heritable (£19.8 million), Landsbanki (£15.157 million) and Glitnir (£2 million). This note

Haringey Council

provides an update on distributions received from each bank and anticipated final recoveries. A summary is attached.

14. Landsbanki

14.1 Prior to 2014, distributions of £8,245,000 had been received from Landsbanki. The CFO received authority to participate in an auction of the remaining Landsbanki claim alongside other investors, provided a minimum agreed price was received.

14.2 The auction was successful and the remaining claim was sold in January 2014 for £6,155,000, brining total proceeds to £14,400,000. This represents 95% of the original deposit. The loss of £757,000 excludes interest that would have been earned since 2008.

14.3 The previous report on expected recoveries (May 2013) estimated distributions until 2018 with 98% of the initial deposit being recovered. Although the auction proceeds are less than the previous estimate of 98% total recovery, the date of recovery has been brought forward by 4-5 years and ends the uncertainty over future receipts.

15. Heritable Bank

15.1 A further distribution of £3,329,000 was received in August 2013, bringing total distributions to £18,702,000, being 94.5% of the initial deposit (or 94% of the claim). This is a substantial improvement on the 86-90% recovery predicted last May. The shortfall to date is £1,098,000. The outstanding claim value is £1.19 million (which includes interest). Future distributions are estimated to increase the recovery to 97% and reduce the cash loss to £594,000.

16. Glitnir

16.1 The £2 million deposit with Glitnir has been reported as 100% recovered, with £1,678,000 received and further distribution, paid in Icelandic Krona, being held in Iceland due to exchange controls. The value of the funds held in Iceland at today's exchange rate is £440,000, which if repaid would result in a 'surplus' of £117,000. The escrow balance is currently earning interest at 4.2%.

16.2 Recent legal advice is that the capital controls will remain in place for some years although they may be lifted in stages offering some exit opportunities.

17. Summary

Haringey Council

17.1 The distributions received from the Icelandic banks now total £34,780,000 out of the original £36,957,000 invested, which represents a shortfall of £2,177,000. This position is expected to improve with eventual recovery of the escrow balance (£440,000) and the potential for further Heritable distributions, estimated at £504,000. The previous estimated final cash loss of £2,679,000 has proved to be overstated. The table below summarises the position to date.

Haringey Council

Appendix 1

Icelandic deposits update – February 2014

The table below summarises the current position in terms of distributions received and the total recovery expected.

	A Original invested	B Distribs rec'd	C Distribs in ISK	D Further Anticipated Distributions	E Total expected recovery	F Total expected recovery %	G Expected cash loss
Glitnir Bank	2,000	1,678	440	0	2,118	106%	-118
Heritable Bank	19,800	18,702	0	504	19,206	97%	594
Landsbanki	15,157	14,400	0	0	14,400	95%	757
Total	36,957	34,780	440	504	35,724	97%	1,233

Distributions

- The distributions listed in column B above have been received into Haringey's bank account.
- The distributions in column C have been made in Icelandic Krona into a ring fenced bank account in Iceland, where they currently remain earning interest at 4.2%. Interest to 31 December 2013 is included. The values shown are the sterling equivalents, which will change as exchange rates vary.

Expected recoveries

- Glitnir has been fully distributed, although some is in Icelandic Krona, which has not been received yet. Depending on exchange rates, the amount received may be more or less than 100%.
- Heritable distributions to date represent 94% of deposits. It is anticipated that the final recovery will be 97% of the original investment.
- The Landsbanki claim was sold by way of an auction and no further recoveries are due.

Icelandic Krona

- The funds in Icelandic Krona are subject to currency controls in Iceland and so cannot be transferred out of the country. The LGA and Bevan Brittan are continuing to search for solutions to expedite the transfer on behalf of all local authorities, but no cost effective solution has yet been found.

This page is intentionally left blank

Haringey Council

Report for:	**Corporate Committee**	**Item Number:**	

Title:	Local Government Pension Scheme - Employer Discretions

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

Lead Officer:	**Janet Richards Pensions Manager**

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

1. Describe the issue under consideration

The Local Government Pension Scheme Regulations 2013 ("LGPS 2013") and The Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2013 ("Transitional Regulations") comes into effect on 1st April 2014. There are some discretionary elements which the Council as the Employing Body can exercise. Regulation 60 (as amended by the Transitional Regulations) requires the London Borough of Haringey to prepare, approve, publish and keep under review changes to the Council's Policy Statement on the exercise of its employer discretions

2. Cabinet Member introduction

Not applicable

3. Recommendations

That the corporate committee approves the changes to the Councils Policy Statement set out in paragraph [6] on the exercise of its pension discretions

4. Alternative options considered

n/a

Haringey Council

5. Background information

The LGPS 2013 and the Transitional Regulations come into effect on 1st April 2014. Although the Local Government Pension Scheme is a national scheme there are some discretionary elements. The new regulation introduces or amends a number of discretions which the Council as the Employing Body can exercise. Under regulation 60 the London Borough of Haringey is required to prepare and publish its policies under the following regulations. These policy discretions are, where appropriate as close to the previous discretions as possible and have been the subject of consultation with trades unions.

This review will not lead to a serious loss of confidence in the public service

The current policy statement is attached as appendix A. Appendix B gives a summary of the changes.

6. New and Revised Policies

The current policy statement will remain saved were revised and added to as set out below:

Policy Decisions

Regulation 16(2)e

Voluntary funding of additional pension contributions via Shared Cost Additional Pension Contributions (by regular ongoing contribution)

Policy decision

The council's policy is not to fund additional pension via shared cost APC

Regulation 16(4) d

Voluntary funding of additional pension contributions via Shared Cost Additional Pension Contributions (by one off lump sum)

Policy decision

The council's policy is not to fund additional pension contributions via Shared Cost Additional Pension Contributions

Regulation 30(5) as amended

Switching on the 85 year rule for members voluntarily drawing benefits on or after age 55 and before age 60

Policy decision

Although the term compassionate grounds is not defined in the regulations, the Council's policy is to apply the following definition:-

'Compassionate Grounds means that the scheme member is required to look after a sick dependant relative on a whole time basis, is therefore unable to take up gainful employment, and in consequence is suffering financial hardship.'

Haringey Council

In addition, the Council will satisfy itself that the sick dependant relative has a permanent long-term condition with a reasonable life expectancy having regard to his/her age.

Each case will be considered on its merits and will be subject to approval by the Chief Financial Officer acting under delegated powers.

Regulation 30(6)

Flexible retirement

Policy decision

The Council will consider applications for Flexible Retirement from scheme members age 55 and over. Flexible Retirement is linked to the Council's existing policies on Flexible Working and extending employment beyond age 65 or state pension age if later. It provides opportunities for re-skilling and redeploying older workers across the workforce as well as retaining skills and experience as part of a transition towards retirement.

Flexible Retirement allows scheme members age 55 and over to apply to transfer to a lower graded post or to reduce hours of employment and at the same time access their retirement benefits. Both the transfer to a lower graded post or reduction in hours of work and the early release of retirement benefits is an employer discretion. As a minimum requirement, a member's pay must reduce by at least four spinal points or the equivalent in reduced hours.

In considering Flexible Retirement both the needs of the member and the Service must be taken into account. Initial approval rests with the Service Chief Officer e.g. Assistant Director or equivalent with final approval by the Head of Human Resources.

The early release of benefits before age 65 or state pension age if later has the potential to incur an actuarial reduction in benefits. The Council's Section 151 Officer has delegated authority to waive any actuarial reduction, but only in exceptional circumstances that benefit the business and operational needs of the service. The cost to the Fund will be met from the Service budget.

Acceptance of Flexible Retirement debars the member from changing their job to a post offering higher pay within the Council or from returning to employment on higher pay with the Council for a period of not less then three years.

The procedure and criteria for approving Flexible Retirement applications is available on Harinet.

Regulation 30(8)

Waiving of actuarial reductions

Policy Decision:

Haringey Council

The Council's policy is only to consider waiving an actuarial reduction by applying 'in the Interest of efficiency of the service' policy in exceptional circumstances where switching on the 85 year rule would leave someone in financial hardship

Each case will be considered on its merits and will be subject to approval by the Chief Financial Officer acting under delegated powers.

Any Capital Cost arising will be met from Service/Business Unit budgets and will be paid into the Fund within a three month period.

First and second tier Officers will require Member approval.

Regulation 31

Awarding additional pension (via an Additional Pension) at whole cost to the employer

The council's policy is not to fund additional pension (via an Additional Pension) at whole cost to the employer

7. Comments of the Chief Finance Officer and financial implications

The Chief Finance Officer has been consulted over the contents of the report and has no additional comments to make.

8. Head of Legal Services and legal implications

8.1 Regulation 60 of the LGPS 2013 places certain obligations on the Council both as a Scheme Employer and as Administering Authority for the LGPS.

8.2 The regulation has been amended by Regulation 18 of the Transitional Regulations which makes transitional provisions relating to the so-called "85 year rule". Schedule 2 paragraph 2 applies where a member makes a request to receive immediate payment of retirement benefits under Regulation 30(5) of the LGPS 2013. In this situation Scheme Employer or where the employer has ceased to be a Scheme Employer, the Administering Authority, may on compassionate grounds waive the reductions referred to in paragraphs 2(a) or (b) of Schedule 2.

8.2 Under Regulation 60 (as amended) a Scheme Employer must prepare a written statement of its policy in relation to the exercise of its functions under Regulations:
-16(2)(e) and 16(4)(d) (funding of additional pension);
- 30(6) (flexible retirement);
- 30(8) (waiving of actuarial reduction);
- 31 (award of additional pension); and

Haringey Council

- 30(5) (retirement benefits: early retirement) (as amended)

8.3 The obligation on the Administering Authority is to prepare a statement in relation to the exercise of its functions under Regulation 30(8) in cases where a former employer has ceased to be a Scheme Employer.

8.4 The Scheme Employer must send a copy of its statement to the Administering Authority before 1 July 2014 and must publish its statement.

8.5 A body required to publish a statement must keep it under review and make such revision as is appropriate following a change in its policy. A Scheme Employer must then send a copy of the revised statement to the Administering Authority and publish it within one month of revision.

8.6 In preparing, reviewing or revising the statement that body must have regard to the extent to which the exercise of its function above in 8.2 in accordance with its policy could lead to a serious loss of confidence in the public service.

9. Equalities and Community Cohesion Comments

N/A

10. Head of Procurement Comments

N/A

11. Policy Implication

N/A

12 Reasons for Decision

The Council is obliged under the Local Government Pension Scheme Regulations 2013 to prepare, approve, publish and keep under review changes to the Council's Policy Statement on the exercise of its employer discretions

13 Use of Appendices

14 Local Government (Access to Information) Act 1985

Haringey Council

Appendix A

POLICY STATEMENT ON THE USE OF ITS DISCRETIONARY POWERS:

This Policy Statement sets out the Council's use of its discretionary powers under the Local Government Pension Scheme Regulations[1] and Local Government Pension Scheme Compensation Regulations.

The document can be viewed on the Harinet Pensions Page (click Personnel and follow the links) and the Haringey Pensions Web Page (www.haringey.gov.uk/pensionfund)

The current policy was reviewed and updated by Corporate Committee on 20th January 2013

This policy statement only applies to scheme members employed by Haringey Council. Scheme members not employed by the Council must refer to the Policy Statement issued by their employing body.

Councillor Members should refer to Part 2

Part 1.A Pensions Discretions	
Employee Members	
1.	<u>Choice of early payment of pension (Regulation 30)</u>
	This applies to members who cease employment after age 55 and before age 60 who elect for early payment of their retirement benefits. The Council's policy is to allow early payment of benefits as provided by Regulation 30 where there is a clear financial or operational advantage to the Council in doing so. The Council will consider waiving any actuarial reduction on 'compassionate grounds' as defined in Paragraph 5 of the Policy Statement below. Each case will be considered on its merits and will be subject to approval by the Section 151 Officer acting under delegated powers. Any Capital Cost arising will be met from Service / Business Unit budgets and will be paid into the Fund within a three month period.

[1] The main scheme regulations referred to are :-
The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
The Local Government Pension Scheme (Administration)) Regulations 2008 (as amended)
The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended)
The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales)) Regulations 2006 (as amended).

Haringey Council

	First and second tier Officers will require Member approval.
2.	Early Retirement on Redundancy and Business Efficiency (Reg 19)
	Members age 55 and over who are retired on redundancy or efficiency grounds have entitlement to immediate payment of unreduced benefits. Any Capital Cost arising from an early retirement on redundancy or business efficiency will be met from Service/Business Unit budgets and must be paid into the Fund within a three month period. Each case will be considered on its merits and will be subject to approval by the Section 151 Officer acting under delegated powers. First and second tier Officers will require Member approval
3.	Early payment of Deferred Benefits (Regulations 30 : 30A)
	A member who left with entitlement to Deferred Benefits or whose Tier 3 Ill Health Retirement Pension was suspended under Regulation 20(9)) can elect from age 55 to have the benefits put into payment early. An election made before age 60 requires employer consent. Benefits claimed before age 65 may be subject to an actuarial reduction unless the Council agrees to waive the reduction The Council's policy is to allow early payment of Deferred Benefits only if the case can be considered on 'Compassionate Grounds' as defined in paragraph 5 below or otherwise where there is no financial disadvantage to the Council for doing so. Deferred Member Benefits which began before 1st April 1997 can only be released early on 'compassionate grounds as defined in paragraph 5 below. There is no discretion to waive any actuarial reduction if an election to receive early payment of benefits from age 60 is made Each case will be considered on its merits and will be subject to approval by the Section 151 Officer acting under delegated powers.
4.	Flexible retirement (Regulation 18)
	The Council will consider applications for Flexible Retirement from scheme members age 55 and over. As a minimum requirement, a member's pay must reduce by at least four spinal points or the equivalent in reduced hours Both the transfer to a lower graded post or reduction in hours of work and the early release of retirement benefits is an employer discretion In considering Flexible Retirement both the needs of the member and the Service must be taken into account. Initial approval rests with the Service Chief Officer e.g. Assistant Director or equivalent with final approval by the y Head of Human Resources. The early release of benefits before age 65 has the potential to incur an actuarial reduction in benefits. The Section 151 Officer has delegated authority to waive any actuarial reduction, but only in exceptional circumstances that benefit the business and operational needs of the service. The cost to the Fund will be met from the Service budget.

Haringey Council

	Acceptance of Flexible Retirement debars the member from changing their job to a post offering higher pay or increasing their hours within the Council or from returning to employment on higher pay with the Council for a period of not less then three years. The full Flexible Retirement Policy, Procedure and Documentation is available on Harinet (click Personnel and follow the links)
5.	Discretion to waive an actuarial reduction under Regulation 30
	Although the term compassionate grounds is not defined in the regulations, the Council's policy is to apply the following definition:- 'Compassionate Grounds means that the scheme member is required to look after a sick dependant relative on a whole time basis, is therefore unable to take up gainful employment, and in consequence is suffering financial hardship.' In addition, the Council will satisfy itself that the sick dependant relative has a permanent long-term condition with a reasonable life expectancy having regard to his/her age. Each case will be considered on its merits and will be subject to approval by the Section 151 Officer acting under delegated powers
6.	Awards of Added Membership Reg. 12
	The Council's policy is not to award additional membership
7.	Awards of Additional Pension Reg.13
	The Council's policy is not to award additional pension
8.	Payment of Death Grants for Active Members Regulation 23, Deferred Members Reg.32 and Pensioner Members Regulation 35.
	A death grant will usually be paid in accordance with the member's nomination or, where there is no nomination, to the legal personal representatives. However where it is considered that: a) an existing nomination may no longer reflect the member's intentions (for example there is a subsequent marriage, divorce or children) or, b) there is a deserving recipient (who must be have been his relative or dependant at some time) who would otherwise be excluded by payment to the Estate or, c) payment to the Estate may be inappropriate for other reasons (for example where inheritance tax may be a factor if payment were made to the Estate). Payment may be made in the manner and proportions the Council believe appropriate in the circumstances of the case. In all cases, the release of the Death Grant is delegated for approval to the Section 151 Officer.
9.	Disregarding a break in full-time education for a Childs Pension to continue in payment.
	a. Where there is a break in full-time education or training, the Chief Financial Officer will decide whether such a break can be ignored on the child's return to full-time education or training b. The Chief Financial Officer will have regard to the circumstances of each case

Haringey Council

	within the guideline that the break should not generally extend beyond 12 months from the beginning of one academic year to the end of one academic year, or include periods of full-time employment of more then three months c. Where the gap extends beyond the 12 month limit as described above, the child must be able to clearly demonstrate a clear intention to return to full-time education or training and has not undertaken paid employment as an alternative career option to returning to fill-time education or training d. Where the Section 151 Officer deems it appropriate to ignore a break in full-time education or training, the child's pension will be reinstated from the re-commencement of full-time education or training or such earlier date as the Secton151 Officer deems appropriate based on the individual circumstance of the case. e. The exercise of this discretion will be reported to the Corporate Committee.
10.	Abatement (reduction) of pensions on re-employment
	Members of the Fund who commence re-employment or who return to Office after 31st March 1998 will be liable for an abatement in their pension in the circumstances described below. The abatement will be calculated in accordance with the provisions of Schedule 5 to the Local Government Pension Scheme Regulations 1995. Pensioner members who commence re-employment or return to Office in local government following retirement on medical grounds. or re-employment or return to Office with Haringey Council or its employing bodies in circumstances where the member has retired early with no percentage reduction to the retirement benefits will be subject to an abatement except in cases of Flexible Retirement agreed in accordance with Regulation 18.
11.	Waiving of time limits
	The Council's policy is to waive time limits set within the Pension Scheme Regulations[2] where it is satisfied that the individual could not have known of the requirement to make an election at the proper time.
12.	Medical clearance to purchase Additional Pension (ARCs) Regulation 23 (Administration Regulations)
	An application to purchase additional pension will only be accepted if the member makes a declaration that he/she is in reasonably good health and has not been seen by a medical practitioner within the last 12 months or otherwise where the member provides a report by a registered medical practitioner of the results of a medical examination undertaken at the member's own expense
13.	Attributing salary bands
	Salary bands are attributed on 1st April based on basic annual pensionable pay plus variable pensionable pay over the last twelve months. New starters to be attributed a salary band on the first day of membership based on basic annual pensionable pay. That with the exception of back-dated pay awards to 1st April, no variation will be

Haringey Council

	made to a member's attributed salary band other then at each annual review date on 1st April of each subsequent year. To ensure the smooth implementation of this change any variation to this policy is delegated to the Head of Human Resources subject to approval at the next available meeting of Corporate Committee
14.	<u>Shared Cost Additional Voluntary Contribution Scheme</u>
	The Council's policy is not to provide a Shared Cost AVC scheme
Part 1.B Compensation Discretions	
Discretions exercised by Haringey Council in accordance with provisions of The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 (as amended) and the Local Government (Discretionary Payments) Regulations 1996 as amended	
1.	Compensation for Redundancy
	Compensation on redundancy will be based on ; 1 weeks pay for each complete year of service up to a maximum of 20 years total service.
2.	Rate of Pay for Redundancy Purposes
	The redundancy payment is based on the actual weekly rate of pay at the relevant date. (This is usually but not always, the date notice is given).
Injury Allowances	
3.	An Injury allowance may be paid to an employee who sustains an injury or contracts a disease as a result of anything he/she was required to do in carrying out their work; and either:- Is certified as being permanently incapacitated and ceases employment. or Suffers a reduction in pay. In deciding on the amount of Injury Allowance payable, the Council takes into account all the circumstances of the case. The maximum amount payable is 85% of Final Pay. Injury Allowances in payment are reviewed annually, and at age 65. Each case is referred for a decision to the Section 151 Officer acting under delegated authority.
4.	Gratuity Payments
5.	Gratuities for Non- Pensionable Service: Summary of current Policy: Gratuities are paid to retiring employees for service with the Council during which they were not eligible to join the Local Government Pension Scheme. Part Time employees who worked at least 15 hours per week for 35 weeks a year can count service up to 31/3/1987 for gratuity entitlement. Part Time employees who worked less 15 hours per week can count service up to

Haringey Council

	16/8/1993. *Gratuity payments do not apply to casual employment* The payments are calculated on 3.75% of Annual Pay for each year of gratuity service as described above. The employee can choose between a once off lump sum or an annuity payment. A Death Gratuity is also paid if an employee dies in Service. The Death Gratuity is paid to an employee's dependants. It is calculated on 3.75% of Annual Pay for all local government service up to 31/3/1987. It is payable to members of the Local Government Pension Scheme and non-scheme members alike.
Part 2.A	
Councillor Members:	
1.	Voluntary early retirement from age 55
	The Council will not exercise its discretion to release retirement benefits early to councillor members who cease or have ceased to be a member of the Council age 50 and under 65 The Council will not exercise its discretion to waive the actuarial reduction for councillor members who cease to be a member of the Council and claim immediate payment of benefits
2.	Re-employed pensioners – Abatement of pensions (Regulation 109)
3.	The Council's policy is not to abate a pension in all cases except :- re-employment or return to Office in local government following retirement on medical grounds. or re-employment or return to Office with Haringey Council or its employing bodies in circumstances where the member has retired early with no percentage reduction to the retirement benefits
4.	4. Waiving of time limits
	That the time limits set within the Pension Scheme Regulations will be waived where the member could not have known of the requirement to make an election at the proper time.
5.	Waiving restriction on entry to the Fund Regulation 7 (9)
	The Council's policy is not to restrict re-entry to the Fund where a member has previously elected to opt out more then once

Important Note:

Nothing stated above confers any statutory rights or overrides the provisions of the Local Government Pension Scheme and Compensation Regulations[3] or related legislation.
In the event of any dispute over your pension benefits, the appropriate legislation will prevail

Haringey Council

For more information contact the Pensions Team at:-

Alexandra House 10 Station Road London N22 7TR

Tel Number 020 8489 5916

E- Mail Pensions.Mailbox@haringey.gov.uk

Haringey Council

Appendix B

Summary of the Changes

	Discretion	Current LGPS Scheme Policy	New LGPS Policy	Comments
1	Regulation 16(2)e Voluntary funding of additional pension contributions via shared cost APC (by regular ongoing contribution)	None - New policy	Not to fund additional pension via shared cost Additional Pension Contribution	New policy Replaces no 4
2	Regulation 16(4)d Voluntary funding of additional pension contributions via Shared Cost APC (by one off lump sum)	None - New policy	Not to fund additional pension contributions via shared cost Additional Pension Contributions (by one off lump sum)	New policy Replaces no 19
3	Regulation 31 Awarding additional pension (via an Additional Pension) at whole cost to the employer	None – new policy	Not to fund additional pension at whole cost to the employer	New policy Replaces no 5
4	Regulation 12 Awards of Added Membership	Not to award additional membership	None	Policy no longer exists in LGPS 2014

Haringey Council

5	Regulation 13 Awards of additional pension	Not to award additional pension	None	Policy no longer exists in LGPS 2014
6	Regulation 30(5) Switching on the 85 year rule for members voluntarily drawing benefits on or after age 55 and before age 60	None - New policy	Considered on compassionate grounds. Subject to approval by the Section 151 officer	New policy
7	Regulation 30(6) Flexible retirement	The Council will consider applications from scheme members age 55 and over. Approval by the Head of Human Resources. The Section 151 Officer has delegated authority to waive any actuarial reduction.	The Council will consider applications from scheme members age 55 and over. Approval by the Head of Human Resources. The Section 151 Officer has delegated authority to waive any actuarial reduction.	No change
8	Regulation 30(8) Waiving of actuarial reductions	None new policy	The Council will consider waiving an actuarial reduction by applying 'in the Interest of efficiency of the service' policy Subject to approval by the Chief Finance Officer acting under delegated powers. First and second tier Officers will require Member approval	New policy

Haringey Council

9	Regulation 30 Choice of early payment of pension	Members between age 55 and 60 requesting early payment of retirement benefits. Council will consider waiving actuarial reduction	None	Transitional Regulations, applies to LGPS members who have deferred benefits before 1 April 2014
10	Regulation 19 Early Retirement on Redundancy and Business Efficiency	Members age 55 and over retired on redundancy or efficiency entitled to unreduced pensions	Members age 55 and over retired on redundancy or efficiency entitled to unreduced pensions	No change
11	Early payment of Deferred Benefits Regulations 30 : 30A	Request of early payment of deferred benefits from age 55 employer consent required considered where no financial disadvantage to council or on compassionate grounds	None	Transitional Regulations applies to LGPS members who have deferred benefits before 1 April 2014
12	Discretion to waive an actuarial reduction under Regulation 30	Request of early payment of deferred benefits from age 55 employer consent required considered where no financial disadvantage to council or on compassionate grounds	None	Transitional Regulations applies to members who have deferred benefits before 1 April 2014
13	Payment of Death Grants for Active Members Regulation 23, Deferred Members Reg.32 and Pensioner Members Regulation 35,	In all cases, the Council will exercise its discretion the release of the Death Grant is delegated for approval to Section 151 officer	In all cases, the Council will exercise its discretion the release of the Death Grant is delegated for approval to Section 151 officer	No change
14	Disregarding a break in full-time education for a Childs Pension to continue in payment.	The Section 151 Officer deems it appropriate to ignore a break in excess of 12 months based on the individual circumstance of the case.	The Section 151 Officer deems it appropriate to ignore a break in excess of 12 months based on the individual circumstance of the case.	No change

Haringey Council

15	Abatement (reduction) of pensions on re-employment	Members of the Fund who commence re-employment following medical retirement or who are reemployed by Haringey or its employing bodies who return to Office after 31st March 1998 will be liable for an abatement	Members of the Fund who commence re-employment following medical retirement or who are reemployed by Haringey or its employing bodies who return to Office after 31st March 1998 will be liable for an abatement	No change
16	Waiving of time limits	Waive time limits set within the Pension Scheme Regulations where an individual could not have known of the requirement to make an election at the proper time.	Waive time limits set within the Pension Scheme Regulations where an individual could not have known of the requirement to make an election at the proper time.	No change
17	Medical clearance to purchase Additional Pension (ARCs) Regulation 23 (Administration Regulations)	An application to purchase additional pension will only be accepted if the member makes a declaration that he/she is in reasonably good health	An application to purchase additional pension will only be accepted if the member makes a declaration that he/she is in reasonably good health	No change
18	Attributing salary bands	Salary bands are attributed on 1st April based on basic annual pensionable pay plus variable pensionable pay over the last twelve months. New starters to be attributed a salary band on the first day of membership based on basic annual pensionable pay.	Salary bands are attributed on 1st April based on basic annual pensionable pay plus variable pensionable pay over the last twelve months. New starters to be attributed a salary band on the first day of membership based on basic annual pensionable pay.	No change
19	Shared Cost Additional Voluntary Contribution Scheme	The Council's policy is not to provide a Shared Cost AVC scheme	None	No longer applies

Haringey Council

20	Part 1.B Compensation Discretions	No change	No change	No change
21	Injury Allowances	No change	No change	No change
22	Gratuity Payments	No change	No change	No change
23	Councillor Members:	No change	No change	No change

This page is intentionally left blank

Agenda Item 13

Haringey Council

Report for:	Corporate Committee 20 March 2014	Item Number:	

Title:	Pay Policy Statement 2014/15

Report Authorised by:	Jacquie McGeachie – Interim Head of HR

Lead Officer:	Paul Smith –Human Resources

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

1 Describe the issue under consideration

1.1 The council is required to produce an annual Pay Policy Statement to comply with the requirements of the Localism Act 2011. The council published its first Pay Policy Statement last March 2012. The attached Pay Policy Statement 2014/15 is a slightly amended statement from the 2013/14 Pay Policy with updates to the delegations regarding Members considering remuneration or severance packages of £100,000 or more.

2 Cabinet Member introduction

2.1 Not applicable

3 Recommendations

3.1 That committee note the Pay Policy Statement 2014/15 attached at appendix A which will be submitted to Council for approval on 26th March 2014

Haringey Council

4 Background

4.1 The Localism Act 2011 requires relevant authorities to prepare and publish an annual pay policy statement.

4.2 The "Act" does not apply to the staff of local authority schools and therefore teaching and support staff employed by the Council and based in Council schools need not be brought within the scope of the "statement"

4.3 The Council will publish specific information on the pay and reward of staff earning £50,000 or more on its website in line with the Code of Recommended Practice for Local Authorities on Data Transparency and the Accounts and Audit (England) Regulations 2011.

4.4 The Council will also publish information on its website as follows. The current senior manager, chief officer and chief executive management structure including employee salaries, names, job titles, staff budget and numbers of staff. The Council defines "senior managers" as those staff appointed on senior manager pay grades – which start at remuneration levels of approx £50k per annum

4.5 The Code says that authorities should also publish a specific pay multiple to show how pay and reward is dispersed across their workforce. It defines the 'pay multiple' as the ratio between the highest paid salary and the median average salary of the whole of the Council's workforce. The Council's highest paid employee is the Chief Executive. Government Guidance says that while authorities are not required to publish a pay multiple within their pay policy statement they may consider it helpful to do so.

4.6 For the purposes of calculating the pay multiple, "salary" is defined in the pay policy statement as the total of all regular payments made to an individual officer including salary, allowances if applicable, regular overtime, performance pay, recruitment or retention allowances, additional responsibility payments, together with any other additional regular payments.

4.7

4.8 The statement also makes clear the Council's policy to pay the London living wage to its lowest paid employees.

4.9 The Council will shortly be undertaking a review of its approach to reward and this will be submitted to the appropriate bodies for approval.

4.10 This will in due course feature in the Council's pay policy.

5 Review of Senior Pay

Haringey Council

5.1 A review of senior pay progression is under way and the outcomes will be reported to the appropriate Committee.

5.2 This will in time feature in the Council's pay policy.

6 Comments of Chief Finance Officer and Financial implications

6.1 There are no specific financial implications arising from the contents of this report.

7 Comments of Head of Legal Services and legal implications

6.1 Chapter 8 of the Localism Act 2011 introduced new provisions regarding the preparation, approval, publication and content of an annual pay policy statement by principal councils. The provisions came into force on 15 January 2012. The first pay policy statement as required under the Localism Act 2011 was published in April 2012 for the financial year 2012-13.

6.2 The Council is under a statutory duty to prepare, and by resolution of Full Council approve, a pay policy statement before the end of the 31 March immediately preceding the financial year to which it relates. . As soon as is reasonably practicable following approval the statement must be published including publication on the Council's website.

6.3 The Council is under a duty, when preparing , approving and publishing pay policy statements, to have regard to any guidance issued or approved by the Secretary of State . Such guidance was issued in February 2012 and supplementary guidance was issued in February 2013.

6.4 The Government has issued under section 2 of the Local Government , Planning and Land Act 1980 a Code of Recommended Practice for Local Authorities on Data Transparency (September 2011). The Code relates to the publication of Public Data defined as the objective, factual data on which policy decisions are based and on which public services are assessed, or which is collected or generated in the course of public service delivery.

6.5 The Code sets out as a minimum the public data that should be released. This includes senior employee salaries (all salaries over £58,200 irrespective of post), names (with the option for individuals to refuse to consent to their name being published), job descriptions, responsibilities, budgets and numbers of staff together with an organisational chart of the staff structure including salary bands and details of current vacant posts. It also requires the release of a 'pay multiple'

Haringey Council

being the ratio between the highest paid salary and the median average salary of the whole of the authority's workforce.

6.6 The Accounts and Audit (England) Regulations 2011 requires the Council to include in its annual accounts a note of the remuneration of senior employees. " Senior employees" are defined by the Regulations as employees whose salary is £150,000 or more per year and certain other employees whose salary is £50,000 or more per year, such as the Chief Executive, statutory chief Officers and non-statutory Chief Officers.

6.7 Under section 41 of the Localism Act 2011, from 1 April 2012 any determination which relates to the remuneration or other terms and conditions of a chief officer must comply with the pay policy statement.

6.8 In the preparation of the pay policy statement attached at Appendix A, regard has been had to the guidance referred to above and the pay policy statement fulfils all the requirements of the Localism Act 2011.

7. Equalities and Community Cohesion Comments

7.1 The pay policy statement supports the Council's approach to remuneration for its workforce in an accountable, fair and transparent way. This therefore supports the Council's equalities policy and promotes equal pay.

8 Policy implications

8.1 The Pay Policy Statement supports the Council's People Strategy and its approach to remuneration for the workforce.

9 Use of Appendices

9.1 Appendix A – Pay Policy Statement

10 Local Government (Access to Information) Act 1985

10.1 No documents that require listing were used in the preparation of this report.

Appendix A -

Haringey Council
Pay Policy Statement 2014/15

This Pay Policy Statement is published to comply with the Localism Act 2011. The policy outlines the authority's approach to the pay of its workforce, and in particular the pay of its senior staff. The policy statement excludes staff in Schools.

Pay Strategy

The Council outlines its strategy for pay in the People Strategy. We wish to reward and recognise the contributions of staff in an appropriate way. We want a committed, motivated and high performing workforce that is flexible and willing to contribute more.

The Council set pay (and reward packages generally, including pensions, etc) in accordance with a fair and equitable pay policy and with regard to national and regional pay policy. The principles for the agreed policy are

- Attract and retain the right people
- Motivate and engage staff through principles of total reward
- Be cost effective
- Be flexible enough to account for different workforce requirements, organisational working and team partnership, and the working patterns and expectations of staff
- Be fair, open, and underpin the organisation's values
- Meet employment legislation tests e.g. equal pay, age discrimination
- Pay staff a minimum pay rate in line with the London Living Wage

Council Pay Rates / Scales

The Council utilises the Greater London Provincial Council (GLPC) outer London pay spine for the majority of its staff.

However, it considers it important to be able to locally determine pay rates for some staff where this is necessary. This enables it to respond to regional and local labour market conditions. The Council benchmarks its pay rates with other London Boroughs to ensure that it is able to recruit and retain qualified and competent employees.

The following Council pay scales are locally agreed by the Council:

- Senior manager and Chief officer pay scales
- Chief Executive pay scale

The Council uses national Soulbury pay scales for employees who are Education Psychologists and Education Advisers/ Inspectors.

The Council uses national Teaching pay scales for centrally employed (in the Children's directorate) local authority teachers.

Public health employees who transferred into the Council from 1 April 2013 continue to be paid in accordance with NHS terms and conditions of employment. The Council is harmonising non contractual terms.

The Council also approved with effect from May 2011 that in future the pay of Council employees at the lower end of the London pay spine receive a level of pay in line with the London Living Wage rate as determined from time to time by the Greater London Authority.

The Council supports the national (JNC/NJC[1]) and regional (GLPC) collective bargaining arrangements for pay and conditions of service and the pay scales for all employees, including the Chief Executive and Senior Managers/Chief Officers, are increased in line with national and regional pay agreements.

The last pay award agreement increasing pay for the Chief Executive and Chief Officers was implemented in 2008/9.

The last pay award agreement increasing pay for all other non-teaching employees was implemented in 2013/14.

Remuneration of Senior Managers and Chief Officers including the Chief Executive

The Council defines its senior managers as those staff appointed on senior manager pay grades – which start at remuneration levels of approx £50k per annum. These staff are appointed on terms and conditions (other than pay) in accordance with the national terms and conditions of Chief Officers in local government and are expected to work as many hours as necessary to complete the job.

Chief Officers are statutory chief officers or non statutory chief officers who report to the Head of the Paid Service (the Chief Executive). "Chief Officers" also includes deputy chief officers who report directly to a chief officer.

The Council's Corporate Committee is responsible of approving the terms and conditions including pay of all these senior staff.

Where it is proposed to appoint to a post which is not in existence at the time of the publication of this pay policy statement, and the proposed starting salary is £100,000 or more per annum the appointment may not be made unless the Council (or where the matter cannot reasonably be delayed the Special Committee in accordance with section K4 of the Council's Constitution) has agreed to the level of remuneration attaching to the position.

[1] Joint Negotiating Committee / National Joint Council

The current senior manager, chief officer and chief executive management structure including employee salaries costs, names, job titles, staff budget and numbers of staff is published on the council website.

Apart from pay awards approved at national level or awards/ progression there is no other provision to increase the pay of these staff unless approved by committee.

The Council may, in exceptional circumstances, engage senior managers under contracts for services. The Council publishes details of all payments made under contracts for services in excess of £500 on the Council website.

Remuneration of employees who are not senior managers or chief officers

The pay grades and therefore remuneration levels for posts below senior manager and chief officer grades are determined by use of the Greater London Provincial Council (GLPC) job evaluation scheme. This has been agreed by the Council and unions as part of the collective agreement reached in 2008 on 'single status' as part of the Equal pay and conditions package.

The Council defines its lowest paid employees as those paid at the lowest pay scale 1A which is pay spine points 6 – 7 on the GLPC outer London pay spine. The reason for this definition is that this is the lowest pay grade in the Council in line with the job evaluation scheme and pay scales agreed with the unions. This excludes trainees, apprentices and interns.

However, the Council also approved with effect from May 2011 that in future the pay of Council employees at the lower end of the London pay spine receive a level of pay in line with the London Living Wage rate as determined from time to time by the Greater London Authority. This will be by way of an hourly pay supplement as appropriate to ensure that the London Living Wage rate is achieved.

Pay Progression of staff who are not senior managers or chief officers

All employees are able to incrementally progress through the pay spine column points for their job evaluated grade. Progression will normally be one increment (pay spine column point) on the 1st of April each year until they reach the top of their grade.

Pay Multiple

The 'pay multiple' is the ratio between the highest paid salary and the median average salary of the Council's workforce. The Council's highest paid employee is the Chief Executive and the current pay multiple is published on the Council's website.

For the purposes of calculating the pay multiple, "salary" is defined as the total of all regular payments made to an individual officer including salary, allowances if applicable, regular overtime, performance pay, recruitment or retention allowances, additional responsibility payments, together with any other additional regular payments.

Pay on Appointment

All employees, including chief officers, are normally appointed on the lower spinal points (below mid point) of the grade.

The Council delegates authority to chief officers/ chief executive as appropriate to appoint staff above the mid point of the scale

The salary banding of the Chief Executive will be determined by the recruitment panel and following this decision the Leader of the Council would determine the starting point in the salary banding.

Recruitment & Retention payments

Haringey acknowledges that our employees are our best asset and that due to external factors recruitment and retention allowances will be required for some posts in order to attract and retain good employees.

Recruitment and retention allowances are linked to the post, not the person. They cannot be paid to someone because of their level of skill or experience.

A recruitment / retention allowance is deemed suitable where there is evidence of one or more of the following:

- The post has been advertised on more than one occasion and a suitable applicant could not be recruited.
- Pay benchmarking exercises show that similar local authorities offer recruitment and retention allowance or a higher salary for the same work.
- A national /local skills shortage where the Council is competing with a number of other employers for applicants.
- The post is highly specialised with a limited number of potential applicants.

If the post does not meet the suitability criteria the attraction of a recruitment and retention allowance is unjustified and may be in breach of the Equality Act .

Fees for Election Duties

Council staff may be engaged on election duties of varying types. The fees paid to Council employees for undertaking these election duties vary according to the type of election they participate in, and the nature of the duties they undertake.

Returning Officer duties (and those of the Deputy Returning Officer) are contractual requirements, and fees paid to them for national elections/referendums are paid in accordance with the appropriate Statutory Fees and Charges Order and are paid by the body responsible for the conduct of the election.

Pension

All non-teaching employees are able to join the Local Government Pension Scheme and receive benefits in accordance with the provisions of that Scheme as applied by the Council. Details of the Council's policy and decisions in respect of discretionary elements of the Scheme are published on the Council's website. Teaching employees are able to join the Teachers' Pension Scheme as administered by the Teachers' Pensions Agency.

Other Terms and Conditions of Employment

The Council's employment policies and procedures are reviewed on a regular basis in the light of service delivery needs and any changes in legislation etc.

The Council and unions' agreement on 'single status' reached in 2008 as part of the collective agreement on Equal pay and conditions outlines the working arrangements and the payments to be made to employees below senior manager grades for working outside normal working hours including overtime, and call out payments.

Employees on senior manager or chief officer grades are not entitled to additional payments or allowances for travel or meals within the London region. For trips outside of the London region reasonable travel and subsistence expenses will be reimbursed for staff on these grades.

Payments on Termination of Employment

In the event that the Council terminates the employment of an employee (including senior managers and chief officers) on the grounds of redundancy or efficiency of the service they will be entitled to receive compensation and benefits in accordance with the Council's Redundancy and Early Retirement schemes, which are published on the Council's website.

Details of redundancy compensation payments paid to senior management are published on the Council's website.

The Council's Redundancy and Early Retirement schemes may be subject to change as part of the modernising pay review.

Re-employment of Employees

Section 7 of the Local Government and Housing Act 1989 requires that every appointment to paid office or employment in a local authority shall be made on merit.

Should a successful candidate be in receipt of a severance payment the Council will apply the provisions of the Redundancy Payments (Continuity of Employment in Local Government etc.) (Modification) Order 1999 regarding the recovery of redundancy payments. The rules of the Local Government Pension Scheme also have provisions to reduce pension payments in certain circumstances to those who return to work within local government service.

Further Information

For further information on the Council's pay policy please contact the Council's Human Resources Service email HR.adviceteam@haringey.gov.uk DD 0208 489 3177.

Report for:	Corporate Committee 20th March 2014	Item Number:	

Title:	Schools Employee Consultative Group

Report Authorised by:	Jacquie McGeachie Interim Head of HR

Lead Officer:	Paul Smith Interim Head of Schools HR

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

1. Describe the issue under consideration

This report seeks Corporate Committee approval to a revised consultative and negotiating group for school based employees..

2. Cabinet Member introduction

3. Recommendations

That the Committee approve the terms of reference for this group

4. Alternative options considered

N/A

5. Background information

The Committee will be aware that since 1989,schools have had significant control over making key employment decisions for their employees within a Local Authority framework. During the past 10 years a number of schools have become academies, taking on the employer role. However under legislation employees at these schools are still bound by both statutory terms and conditions of employment and their local application (in the case of teachers) and national and local terms and conditions in respect of support staff. In addition, the Local Authority can agree employment policies with trades unions and recommend them to schools for adoption.

Previously these functions were undertaken by the Teachers Negotiating Group (TNG). However, in 2013 the Outstanding For All Commission recommended that the TNG be abolished. As a result the Council needed to establish new consultative arrangments for school based employees. It made sense to include support staff as part of this review as consultative arrangments for school based support staff were not joined up with the arrangments for teachers.

Subsequently discussions have taken place with representatives of teacher and support staff unions and it has been agreed that a new group be established. This group will be called the School Employee Consultative Group (SECG).

Membership of this group will consist of:

- Representatives from the Local Authority
- Head Teacher representatives from Primary, Secondary and Special Schools
- Representatives from teacher trade unions (nominated by the Haringey Teachers Panel)
- Representatives from support staff trade unions (nominated by the Haringey Employees Side)

The meetings will be chaired by the Assistant Director for Schools & Learning.

The terms of reference for the SECG has been agreed with the teaching and support staff trades union representatives and is appended to this report.

6. Comments of the Chief Finance Officer and financial implications

There are no financial implications arising from this report.

7. Comments of the Assistant Director of Corporate Governance and legal implications

The Assistant Director of Corporate Governance has been consulted with the preparation of this report, and makes the following comments

The arrangements proposed are in line with the provisions of the School Staffing (England) Regulations 2009, made under the School Standards and Framework Act 1998 and the Education Act 2002, regarding the delegation of key employment decisions within a Local Authority framework to schools including academies.

Employers are legally obliged to consult with recognised trades unions on matters affecting employees and therefore the arrangements proposed enable the Council to meet these obligations

8. Equalities and Community Cohesion Comments

Equalities in employment matters will be discussed at this Group as appropriate

9. Head of Procurement Comments

Not applicable

10. Policy Implication

There are no policy implications

11. Reasons for Decision

The report seeks this Committee's approval to the proposed terms of reference for the SECG in order that the Council has an effective and robust consultation forum with trades unions representing school based employees.

12. Use of Appendices

None

13. Local Government (Access to Information) Act 1985

Appendix

Haringey Council
Schools Employee Consultative Group Constitution & Terms of Reference

1. Introduction

This document sets out the arrangements for the functioning of the Schools Consultative Group. References in this document to school based staff apply to all teaching and support staff who are employed by Haringey Council but based in school under the management of the Governing Body.

2. Purpose & Scope

The purpose of the Group is to facilitate discussion between the Local Authority, school management and recognised trades unions on matters that affect school based staff. All members of the Group are committed to positive employee relations via effective communication and engagement. The Group will act as a negotiation, consultation and information sharing body as appropriate.
Matters to be discussed by this Group will include:

- Model policies
- Implementation of changes to national terms and conditions of employment including pay arrangements (note – for support staff many of these changes will normally be discussed at the Local Authority's corporate CEJCC meeting).
- Matters of Local Authority policy insofar as they may impact upon:
    - The number of school based staff employed
    - Terms & conditions of service
    - Working arrangements
- Oversight of local employee relations relating to matters such as school closures, redundancies, and staff transfers.
- Implementation of legislation and national policy that impacts upon school based staff.

The Group may establish ad hoc working groups on particular issues which would then feed back to the Group as appropriate.
It is recognised that in the main, matters discussed by this group will be of direct concern to teachers. However there will be issues discussed that will have an impact upon support staff. Therefore representatives recognised trades unions representing support staff will form part of this group.

3. Membership

The Group shall consist of representatives from

- The Local Authority including schools management
- Members of the Haringey Teachers Panel
- Recognised support staff trades unions (Known as Haringey Employees Side)
- The recognised teaching and support staff trades unions are as follows::

Teaching	**Support Staff**
NUT	Unison
NASUWT	GMB
NAHT	Unite
ASCL	
ATL	

Detailed membership will be reviewed annually by the Group. Appendix A sets out a proposed membership for the academic year 2013/14

4. Joint Secretaries

The management side, the Teaching side & the Support staff side will appoint joint secretaries for the following arrangements.

The three joint secretaries will:

- Meet, sufficiently in advance of the next scheduled meeting, to agree the agenda items for meetings
- Provisionally agree the notes of meetings
- Agree dates of meetings for the next school year
- Provide an additional mechanism outside of the group to resolve disputes and seek preliminary agreement on issues.
- Maintain a schedule of collective agreements and agreed local conditions of service
- Agree the terms of reference to ACAS should the need arise
- Maintain a forward plan of activities and dates for when items are scheduled to be discussed.

5. Agenda & Meetings

The agenda setting out the agreed items and accompanying papers for meetings will be circulated by the management side secretary to all members of the Group at least 3 working days before the meeting. Items not appearing on the agenda may only be discussed with the agreement of both sides

The calendar for meetings will be agreed annually at the start of the academic year with a minimum of two meetings per term unless both sides agree that a meeting is not needed

6. Quorum

In order for the meeting to be quorate there must be a minimum of the following in attendance:
a)2 representatives of the Local Authority
b) 2 representatives of the Haringey Teachers Panel
c) 2 Representatives of the Haringey Employees Side
Where the matter relates solely to teaching staff then the quorum will be a) & b) above
Where the matter relates solely to support staff then the quorum will be a) & c) above.

7. Meeting Notes

Notes of key points of discussion and agreed actions arising out of each agenda item will be taken by an officer of the local authority and circulated to the joint secretaries within 10 working days of the meeting.

The joint secretaries will amend the notes of the meeting as appropriate and ensure distribution to all relevant parties within a further 10 working days.

All members of the Group undertake to communicate the key outcomes from each Group meeting to their constituent groups (for example head teachers, trades union colleagues etc)

8. Disputes

Although it is the aim to resolve matters within the Group meetings, it is open for either party to declare a formal dispute where discussion cannot reach a resolution. This dispute would be progressed in accordance with the relevant procedures within national conditions of service and, where appropriate, corporate Local Authority procedures

Haringey Council

Membership for Academic Year 2013/2014

Management Side Representatives

Name	Representing	Job Title	Location/School
	CYPD	Assistant Director	
	CYPD/HR	Interim Head of Schools HR	
	CYPD/HR	HR Manager (Schools)	
	Primary Schools	Head Teacher	
	Secondary Schools	Head Teacher	
	Special Schools	Head Teacher	

Haringey Teachers Panel & Haringey Employees Side Representatives

Name	Representing	Job Title	Location/School

*Joint Secretary

Haringey Council

Report for:	Corporate Committee 20 March 2014	**Item number**	

Title:	**Annual Internal Audit Plan and Strategy 2014/15**

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 reviewing and approving the annual internal audit plan as part of its Terms of Reference. In order to facilitate this, a draft audit plan for 2014/15, together with the internal audit strategy, is provided for review and approval by the Corporate Committee.

2. Cabinet Member Introduction

2.1 Not applicable

3. Recommendations

3.1 That the Corporate Committee reviews and approves the Internal Audit strategy.

3.2 That the Corporate Committee reviews and approves the Annual Internal Audit Plan for 2014/15.

4. Other options considered

4.1 Not applicable.

Haringey Council

5. Background information

5.1 Local authorities are required by law to maintain an internal audit function. In addition, The Accounts and Audit (Amendment) (England) Regulations 2011 reinforce the statutory requirement and re-state the need for the Council to maintain an adequate and effective system of internal audit.

5.2 Within Haringey, the Internal Audit function is comprised of Mazars, who undertake the majority of the internal audit work in accordance with the contract in place, including IT and procurement audit. The in-house corporate anti-fraud team is responsible for investigations into allegations of financial irregularity, pro-active and reactive corporate anti-fraud work, provision of advice on risk and controls and some grant certification work.

5.3 Appendix A contains the proposed annual audit plan for 2014/15, which is risk based and has been derived following consideration of: organisational changes; risk registers; corporate programmes and priorities; new projects and procurement activities reported to the Cabinet and the Cabinet Procurement Committee; the Annual Audit and Inspection Letter; changes to legislation; and fraud investigation work completed in 2013/14. This approach reflects current best practice requirements for internal audit and ensures that, over the life of the contract, the Council's key financial and non-financial systems and services will be appropriately reviewed according to risk. This approach also ensures that the Council operates a fully integrated internal audit and risk management process.

5.4 Appendix A also includes the audit strategy which will be used to deliver the Council's internal audit plan. The strategy has been drafted in accordance with the 2013 UK Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013.

5.5 The PSIAS provide a consistent framework for internal audit services across the UK public sector and replace the existing standards and 2006 CIPFA Code of Practice for Internal Audit in Local Government.

6. Comments of the Chief Financial Officer and Financial Implications

6.1 There are no direct financial implications arising from this report. The work which will be completed by Mazars to undertake the annual audit plan in 2014/15 is part of the three year contract which was awarded, in compliance with EU regulations, from 1 April 2012. The costs of this contract are contained and managed within the Audit and Risk Management revenue budgets which are monitored on a monthly basis.

Haringey Council

6.2 The audit plan reflects current best practice requirements for internal audit in accordance with UK PSIAS and ensures that, over the life of the contract, the Council's key financial and non-financial systems and services will be appropriately reviewed according to risk. This approach also ensures that the council operates a fully integrated internal audit and risk management process.

6.3 The corporate anti-fraud team is responsible for investigations into allegations of financial irregularity, pro-active anti-fraud work, provision of advice on risk and controls and grant certification work. This is on top of the planned work set out in Appendix A.

7. Assistant Director of Corporate Governance Comments and Legal Implications

7.1. The Assistant Director Corporate Governance has been consulted in the preparation of this report, and advises that in noting that the audit plan reflects current best practice, and the associated strategy has been drafted in accordance with the 2013 UK Public Sector Internal Audit Standards, has no comments.

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. 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 management controls, reducing the opportunity for fraud to take place in the first place, and taking appropriate 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 – Annual Internal Audit Plan and Strategy 2014/15

12. The Annual Audit Plan 2014/15

Haringey Council

12.1 The proposed annual internal audit plan for 2014/15 is attached as Appendix A to this report. It gives outline details of the planned audit work on the key financial and other systems of the Council. The detailed scope for each project will be agreed with the client for the work at the planning stage of the audit. Indicative timings for the projects have also been agreed, wherever possible, with the nominated clients to take account of any cyclical or other work pressures, although these may be subject to change during the course of the year.

12.2 The key changes in approach for 2014/15 are highlighted as follows:

- Significant resources and focus on the key corporate programmes and projects in order to provide senior managers and programme SROs with assurance over key stages and performance of the programmes. The scope and audit resources required (including the seniority of the auditor required) for each audit review will be determined in discussion with the Assistant Director Corporate Programme Office and CIO;
- Resources for business area risk audits allocated in line with the priorities identified in the Council Plan; and
- Allocation of resources to review key corporate processes in order to provide senior managers with assurance that risks are being managed appropriately in the new organisational structure.

12.3 We will continue to work with the Council's external auditors, Grant Thornton, to ensure that audit coverage is maximised and duplication is avoided wherever possible in order to make the best use of our combined resources. A programme of meetings is in place to ensure that use of audit resources is effective.

12.4 Included in the audit plan are audits of key financial systems. We consider key systems to be those which are essential to the successful management of the Council, and where failure of the system would have a material effect on the organisation. These key systems, including payroll, accounts payable, accounts receivable, council tax, and housing benefits are therefore subject to regular review. A programme of full reviews every three years, with high level reviews in the intervening years ensures that all key risks and controls are appropriately reviewed. This programme of work has been agreed with both the managers responsible and the council's external auditors.

Appendix A

London Borough of Haringey - Internal Audit Plan and Strategy 2014/15 (DRAFT)

Introduction
This document sets out the 2014/15 annual internal audit plan and audit strategy for Haringey Council. The proposed audits have been discussed and agreed with the Chief Executive and Senior Leadership Team, the Statutory Officers Group, and the nominated clients for the work; and the plan and strategy are submitted to the Corporate Committee for final approval in accordance with the committee's terms of reference. It is proposed that any significant changes to the annual internal audit plan and/or the internal audit strategy are reported during the year to the Corporate Committee for formal approval.

Internal Audit Strategy
This Strategy sets out how the Council's Internal Audit service will be delivered in accordance with the Internal Audit Charter. The Strategy will be reviewed annually and presented to the Corporate Committee for final approval.

Internal Audit Objectives
Internal Audit will provide independent and objective assurance to the Council, its Members, the Chief Executive and Senior Leadership Team and to the Chief Financial Officer to support them in discharging their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs. It is the Council's intention to provide a best practice, cost efficient internal audit service which fulfils the requirements of the statutory 2013 Public Sector Internal Audit Standards.

Internal Audit's Remit
The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the Council's objectives.

Under the direction of a suitably qualified and experienced Head of Audit and Risk Management, Internal Audit will:
- Provide management and members with an independent, objective assurance and advisory activity designed to add value and improve the Council's operations;
- Assist the Corporate Committee to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;
- Work closely with other assurance providers to share information and provide a value for money assurance service; and
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit will ensure that it is not involved in the design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

Service Delivery 2014/15
The internal audit service will be delivered by a 'mixed economy' of externally procured services under the direction of the Council's Head of Audit and Risk Management and supported by an in-

house Corporate Anti-Fraud Team. The Council participates in the London Audit & Anti-Fraud Partnership to work with other local authorities on a shared service basis. This includes appropriate: resource provision, joint working, audit management & strategy and a range of value added services.

Internal Audit Planning

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with the Council's senior management and statutory officers;
- The Council's Risk Registers and Council Plan;
- Outputs from other assurance providers; and
- Requirements as agreed with the council's external auditors.

The Head of Audit and Risk Management discusses the risk facing the Council with senior managers as part of the annual planning process to ensure that management views and suggestions are taken into account when producing the audit plan. The Internal Audit Plan 2014/15 (attached to this strategy) is composed of the following:

- **Corporate and Business Area Risk Based Audits:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The selection of work in this category is driven by senior managers' own risk processes and may also include work in areas where the Council services are delivered in partnership with or by other organisations.

- **Key Financial Systems:** Audits of the Council's key financial systems where external audit require annual assurance as part of their external audit work programme.

- **Probity Audit (schools establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice is confirmed. For schools this includes assessment against criteria included in the Schools Financial Value Standard.

- **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.

- **Contract and Procurement Audit:** Audits of the Council's procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.

- **Counter-Fraud and Ad-Hoc Work:** The in-house Corporate Anti-Fraud Team undertakes a programme of pro-active and reactive counter-fraud investigations. A contingency of audit days are also included in the plan to cover any additional work due to changes or issues arising in-year.

Follow-up

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to management and to the Corporate Committee on a quarterly basis. Where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, Internal Audit will implement the escalation procedure as agreed with management.

Appendix A

London Borough of Haringey - Internal Audit Plan and Strategy 2014/15 (DRAFT)

Reporting

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and at the follow up stage. Summary reports are also provided to the Corporate Committee on a monthly basis and high level reports provided on a quarterly basis. This includes the Head of Internal Audit's annual report which contributes to the assurances underpinning the Annual Governance Statement of the Council.

Appendix A

London Borough of Haringey - Internal Audit Plan and Strategy 2014/15 (DRAFT)

Haringey Internal Audit Coverage: 2014/15

The table below sets out the internal audit work to be completed during 2014/15 by the external contractor. The total number of days to be delivered is 850; which does not include audit work that will be completed as part of the Service Level Agreement with Homes for Haringey, or the corporate anti-fraud team's work. The breakdown of work can be summarised as:

Audit area	Client	Quarter	Days
Key Financial Systems (KFS)			
Strategic Financial Management & Budgetary Control – full review	Assistant Director – Finance	3	10
Cash Receipting – high level review	Assistant Director – Finance	3	7
Treasury Management – full review	Assistant Director – Finance	3	10
Accounting & General Ledger – full review	Assistant Director – Finance	4	15
Accounts Payable (Creditors) – full review	Assistant Director – Finance	4	10
Pension Fund Investment – full review	Assistant Director – Finance	4	10
Accounts Receivable (Sundry Debtors) – full review	Assistant Director – Finance	3	10
Housing Benefits – high level review	Assistant Director – Customer Services	3	7
Council Tax – high level review	Assistant Director – Customer Services	4	7
NNDR – high level review	Assistant Director – Customer Services	4	7
Payroll – full review	Assistant Director – Human Resources	4	15
Sub-total – Key Financial Systems			**108**
Corporate Risk Audits			
Programme and Project Management – key corporate programmes and projects (governance, performance, compliance)	Assistant Director for Corporate Programme Office and Chief Information Officer	1-4	80
Annual Governance Statement – assurance statements controls testing	Assistant Director Corporate Governance	1-4	20
Risk Registers – controls testing for key risk registers	Assistant Director Corporate Governance	1-4	20
Information Management – controls testing and follow up of ICO audit	Assistant Director Corporate Governance	1-4	10
Data quality and Performance Indicators – key corporate services	Chief Operating Officer	2	15
Sub-total – Corporate Risk Audits			**145**
Business Area Risk Audits			
Teachers' Pensions contributions (Grant certification requirement)	Assistant Director – Finance	1	5
Debt Collection – governance, performance and compliance	Assistant Director – Finance	2	10
Medium Term Financial Strategy – governance, performance and	Assistant Director – Finance	3	10

Appendix A

London Borough of Haringey - Internal Audit Plan and Strategy 2014/15 (DRAFT)

Audit area	Client	Quarter	Days
compliance			
Election 2014 Expenditure and Expenses - governance, performance and compliance	Assistant Director Corporate Governance	1	10
Community Safety Partnership – governance and performance	Assistant Director for Environmental Services and Community Safety	2	10
Parking Services – on street income and enforcement	Assistant Director for Environmental Services and Community Safety	1	10
Highways Income – governance, performance and compliance	Assistant Director for Environmental Services and Community Safety	1	10
Environmental Services enforcement – governance, performance and compliance	Assistant Director for Environmental Services and Community Safety	2	10
Safeguarding Adults Board – governance and performance	Director for Adult Social Services	3	10
Implementation of the Better Care Fund – governance and performance	Director for Adult Social Services	3	10
Section 47 investigations – compliance with legislation and procedures	Director of Children's Services	2	10
Children in Care Plans (including Personal Education Plans) – governance and performance	Director of Children's Services	3	10
Early Help Pathway Framework – governance and performance	Director of Children's Services	4	10
Commissioned Services – governance, performance and compliance	Director of Children's Services	3	15
Private Sector Leasing and Housing Options – governance, performance and compliance	Deputy Director – Community Housing Services	1	10
New Homes Bonus – governance, performance and compliance	Deputy Director – Community Housing Services/ Assistant Director – Finance	3	10
Absence Management – governance, performance and compliance	Assistant Director Human Resources	1	10
Sub-total – Business Risk Audits			170
Corporate IT Audits			
Complaints and DPA (Respond) – application audit	Head of Information Technology	TBC	12
Council website and website security	Head of Information Technology	TBC	12
Environmental Enforcement (PPwiz/M3) – application audit	Head of Information Technology	TBC	12
ICT Strategy – governance, performance and compliance	Head of Information Technology	TBC	12
Benefits & Local Taxation data storage	Head of Information	TBC	12

Appendix A

London Borough of Haringey - Internal Audit Plan and Strategy 2014/15 (DRAFT)

Audit area	Client	Quarter	Days
(Comino) – application audit	Technology		
Albacs /ePay – Post Implementation Review	Head of Information Technology	TBC	10
Follow up audit	Head of Information Technology	TBC	2
Schools ICT – risk audit	Assistant Director Schools and Learning	TBC	3
Sub-total – Corporate IT Audits			**75**
Contract and Procurement Audit			
Specific Contract Audits – key council contracts	Head of Corporate Procurement	1-4	20
Post Contract Evaluation – key council contracts	Head of Corporate Procurement	3	10
Contract Monitoring and Management arrangements – key council contracts	Head of Corporate Procurement	1-4	20
EU contract regulations – compliance with legislation	Head of Corporate Procurement	4	10
Procurement Strategy – governance and communications	Head of Corporate Procurement	2	10
Scheme of Delegation – Contract Standing Orders	Head of Corporate Procurement	2	10
Sub-total – Contract Audits			**80**
School Audits			
Bruce Grove	School Head teacher	TBC	5
Chestnuts	School Head teacher	TBC	5
Crowland	School Head teacher	TBC	5
Devonshire Hill	School Head teacher	TBC	5
Mulberry	School Head teacher	TBC	5
Risley Avenue	School Head teacher	TBC	5
St Francis de Sale Inf & Juniors	School Head teacher	TBC	5
St Martin of Porres RC	School Head teacher	TBC	5
St Mary's CE Primary (single school)	School Head teacher	TBC	5
Park View Secondary	School Head teacher	TBC	6
South Harringay Junior	School Head teacher	TBC	5
South Harringay Infants	School Head teacher	TBC	5
Rowland Hill Nursery	School Head teacher	TBC	5
Sub-total – School Audits			**66**
Follow up audits 2013/14 audits			40
Admin and Management			80
Contingency			86
Total – Contractor delivered days			850

Haringey Council

Report for:	Corporate Committee	Item number	

Title:	Audit Letters to Management and those Charged with Governance – Assurance Statements to comply with International Auditing Standards

Report authorised by :	Kevin Bartle – Assistant Director – Finance (CFO)

Lead Officer:	Neville Murton – Head of Finance (Budgets, Accounting and Systems) neville.murton@haringey.gov.uk 020 8489 3176

Ward(s) affected: All	Report for Key/Non Key Decision: Non-key

1 Describe the issue under consideration

1.1 To comply with International Auditing Standards, our external auditors, Grant Thornton (GT), need to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with law and regulation.

1.2 They are also required to make inquiries of both management and the Corporate Committee as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements

2 Cabinet Member Introduction

2.1 Not applicable

3 Recommendations

3.1 Corporate Committee are asked to note the responses set out in the attached documents and propose any amendments that may be considered necessary before submission to the auditors.

Haringey Council

4 Executive Summary

4.1 The external auditors have asked a number of questions both to the Council's management team and the Chair of the Corporate Committee. To enable the external auditor, Grant Thornton, to meet their statutory requirements the Chief Financial Officer, in consultation with other senior officers and the Chair of the Corporate Committee, has considered and set out a proposed formal response to the matters set out in the attached schedules.

4.2 This report provides an opportunity for the Committee to consider the responses and propose any amendments they consider may be required before it is finally submitted to our auditors.

5 Comments of the Chief Financial Officer and Financial Implications

5.1 There are no direct financial implications arising from this report which covers the governance arrangements of the Council.

6 Comments of the Monitoring Officer

6.1 The Monitoring Officer has been consulted and has no additional comments to make.

7 Policy Implication

7.1 None.

8 Use of Appendices

Appendix 1 – Draft Management response

Appendix 2 – Draft Chair of Corporate Committee response

9 Local Government Act, 2000 (Section 97)

None

Appendix 1

Responses from Management:

Auditor question	Response
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2013/14?	2013/14 is the first year that the Council has operated under the government's new Business Rates Retention Scheme. In terms of the effect on the Council's SoA this will represent a change from collecting and passing Business rates to the Government under an agency arrangement (and receiving redistributed NNDR as part of Formula Grant) to the operation of a Business Rate Collection Fund similar to Council Tax. The Council also assumed responsibility and risk for implementing a local Council Tax Reduction Scheme; this will affect the balance of the Council's Taxbase and associated income compared to having a previous higher taxbase with Council Tax benefit grant being received from the government. New Public Health responsibilities passed to the Council in April 2013 along with a significant new grant; the development of joint plans under the review of the Health and Wellbeing Boards are a key part of these reforms with future funding streams being partly dependent on achieving successful outcomes. The Chief Executive has changed the way that the Council is configured with a move away from large Directorates to more agile service groupings led by autonomous Directors and Assistant Directors. Strategic Direction is given by a new Senior Leadership Team and four key transformational programmes have been established. There was a major Leisure Outsourcing project achieved during the latter part of 2012/13 which primarily will impact the 2013/14 accounts. Settlement was reached in the year on a high profile employment tribunal case which will require disclosure in the 2013/14 SoA.
Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	We have started to account for our housing rental income on a daily (365) rather than weekly (53) basis. Changes required to the accounting arrangements for the Local Government Pension Scheme (LGPS) will affect our accounting policies and the presentation of information in the financial statements.
Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	As described above the implementation of a new Business Rate Retention Scheme and localisation of the Council Tax Benefit system

	will change the accounting arrangements for some of the Council's major income sources. In addition the transfer of Public Health responsibilities and associated grant funding will have an impact on the way that the Council's resources are spent. A range of welfare reforms are also expected to impact on areas such as rent arrears, homelessness and the use of temporary accommodation. Changes to the Local Government Pension Scheme will require restatement of prior year data and changes to the information in the Council's core statements and disclosure notes.
How would you assess the quality of the Council's internal control processes?	Effective. An annual review of the Council's key financial systems, covering key risk areas and controls to manage the identified risks, is undertaken including walkthrough and compliance testing of controls on a sample basis. All key financial systems achieved a 'substantial' assurance rating from internal audit in 2013/14 and no high priority recommendations remain outstanding.
How would you assess the process for reviewing the effectiveness of internal control?	Effective. The annual programme of audit work is agreed with Grant Thornton to ensure both internal and external audit requirements are met. Other key risk areas are included in the risk based annual audit plan, which is discussed and agreed with the Chief Financial Officer, all senior managers and external audit to ensure coverage is appropriate to mitigate the risks. No significant issues relating to internal control were raised by internal or external audit during 2013/14.
How do the Council's risk management processes link to financial reporting?	The Chief Financial Officer assesses the adequacy of the Council's reserves as part of the budget setting process and taking into account an assessment of known and unknown risks. The Council maintains a number of earmarked reserves as well as general (un-earmarked) reserves and contingencies. In addition the Council's regular budget monitoring process assesses performance against the agreed budget and provides an opportunity to identify and quantify emerging risks and seeks formal approval to measures aimed at addressing those risks.
How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	The Council has a corporate fraud risk register in place which reviews the key fraud risk areas – emerging fraud risks are identified via the Audit Commission fraud surveys, feedback from attending regular public sector counter-fraud briefings, and review of previous audit work.

	The fraud risk register is reviewed quarterly by Internal Audit and used to plan the pro-active counter-fraud work and highlight any emerging trends. The risk of fraud and associated controls are discussed monthly as part of the Council's Statutory Officers Group. The Council has a Counter-Fraud Policy and Strategy, together with a Fraud Response Plan, Whistle Blowing Policy and HB Fraud Sanctions Policy, all of which have been approved by the Corporate Committee. The policies are all published on the website together with the free and confidential telephone and email reporting details. The Corporate Anti-Fraud Team and HB Fraud Investigation Team undertake pro-active and reactive investigations into fraud. Regular press releases are done on the outcomes of fraud cases. The Insurance Team also investigates claims against the Council for any potential fraud and has implemented a 'risk flag review' process which has been successful in repudiating and prosecuting a significant fraudulent claim on behalf of Homes for Haringey.
What has been the outcome of these arrangements so far this year?	Quarterly reports are made to the Corporate Committee by the Head of Audit on investigations into fraud and the outcomes, plus the Committee is responsible for reviewing and approving the Anti-Fraud Strategy.
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	We have focussed attention on the Council's Key Financial Systems and in particular those that generate large volumes of transactions, large cash transaction or in relation to the Council's banking arrangements. Key Financial Systems are considered annually as part of the internal audit plan which is risk based and all have gained substantial assurance. We also consider and mitigate the potential for fraud to take place through the related party transaction disclosure process and procurement fraud is considered through the Corporate Declaration of Interest forms.
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	The details of all whistle blowing reports made are included in the quarterly internal report to the Corporate Committee.
Have any reports been made under the Bribery Act?	No
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	The Council has a corporate fraud risk register in place which reviews the key fraud risk areas and is reviewed quarterly by Internal Audit. The risk register is used to plan the pro-active counter-fraud work and highlight any emerging

	trends. The risk of fraud and associated controls are discussed monthly as part of the Council's Statutory Officers Group. The Corporate committee's responsibilities cover audit and fraud and part of this includes reviewing and approving the Council's policies on Anti-Fraud, whistle blowing, and risk management. The Committee gets relevant reports on a quarterly basis and the reports cover all investigations which include cases of actual fraud and whistleblowing reports which have been received.
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	Regular dialogue takes place with senior managers across the Council by the Head of Audit on all internal audit work, including fraud cases. All cases of actual fraud are reported to senior managers (at Assistant Director level or above) in order to advise them of breaches of the Council's code of conduct by staff, and recommended action to address the breach. Reports on the outcomes of pro-active counter-fraud work are provided on a regular basis to senior managers and ongoing liaison with operational officers takes place to ensure all suspected cases are followed up – latest tenancy fraud work is also reported to Cabinet Member responsible for Housing. Head of Audit attends s151 Officer's Management Team meetings. Reports to Corporate Committee are made on a quarterly basis. Regular reminders are included in newsletters to all staff regarding expected standards of behaviour and how to report suspected fraud.
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	All claims made against the council's insurance policies are managed by the in-house insurance team. The team use external claims handlers to assist with complex and injury related claims, all other claims are dealt with in-house. The Council has accepted the fist £500k risk for each and every claim made against it and uses its internal insurance fund to manage the claims. The Head of Audit & Risk Management advises the s151 Officer of any claims which may impact on the Council's financial statements. The s151 Officer will discuss relevant matters with Grant Thornton during the closure process in particular in relation to the contingent liabilities note to the final accounts. Directors complete an annual assessment of governance processes in their directorates including any litigation and claims issues.

Is there any use of financial instruments, including derivatives?	No
Are you aware of any significant transaction outside the normal course of business?	We have received repayment, following auction, of monies previously held in Icelandic banks and subject to the administration process.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
Are you aware of any guarantee contracts?	No
Are you aware of allegations of fraud, errors, or other irregularities during the period?	All the reports from the Head of Audit to the Corporate Committee have details of the investigation work completed by each of the audit teams. These reports are reviewed on a quarterly basis and the reports cover all investigations which include cases of actual fraud and whistleblowing reports which have been received. The s151 Officer is also alerted separately to any suspected irregularities or fraud. The quarterly audit report has details of staff suspended and disciplinary actions taken.
Are you aware of any instances of non-compliance with laws or regulations or is the Council on notice of any such possible instances of non-compliance?	The annual internal audit programme of work reviews compliance with local and statutory regulations and covers the key risks facing the Council. Advice and guidance is provided to officers across the Council by Legal Services and Corporate Procurement departments on specific issues. Directors complete an annual assessment of governance processes in their directorates including compliance with relevant laws and regulations. No significant issues of non-compliance have been identified.
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	No
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	No
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	At this stage of the closure of accounts process, it is not yet known which items in the accounts will require a significant estimate. However, once known, the basis for any estimates used will be discussed and agreed with the auditor.
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?	The council has adequate reserves and the Chief Financial Officer has formally reviewed them as part of the budget setting process, confirmation of this is included in the report to Council. The council has set a balanced and legal budget for 2014/15. The capital

	programme has been reviewed for expenditure and income and is balanced. There are strong revenue collection arrangements in place and robust controls on Treasury Management functions.
What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?	The Chief Financial Officer assesses the adequacy of the Council's budget annually including consideration of the adequacy of reserves. Budget monitoring reports provide on-going monthly assurance and any significant variation from the approved budget. The Chief Financial Officer has a statutory duty to report to the Council under S114 of the LGFA 1972 if, inter alia, they believe that the Council's going concern status is likely to be compromised.
Can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Insurance use external solicitors (a Panel of five firms appointed via the Consortium tender process) as part of the claims management processes – only deal with claims. Legal Services have used external counsel too to provide specialist advice on a number of areas.
Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Professional valuers have been used to carry out non-current asset valuations. The Transformation Programmes have commissioned a range of professional advisors with experience of delivering similar programmes of work elsewhere e.g. regeneration advisors, Children's Social Care advisors (IMPower) Business and Customer Service processes (Agilysis).
Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	Not to the Chief Financial Officer.

Appendix 2

Response from Corporate Committee Chair

Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	Yes - The Council has a corporate fraud risk register in place which reviews the key fraud risk areas and is reviewed quarterly by Internal Audit. The risk of fraud and associated controls are discussed monthly as part of the Council's Statutory Officers Group.
What are the results of this process?	The audit team have been pro-actively targeting housing tenancy fraud in 2013/14 as well as undertaking work to review potential fraud identified as part of the National Fraud Initiative data matching exercise. The Insurance Team also investigates claims against the Council for any potential fraud and has been successful in repudiating and prosecuting a significant fraudulent claim on behalf of Homes for Haringey.
What processes does the Council have in place to identify and respond to risks of fraud?	The Council has a corporate fraud risk register in place which reviews the key fraud risk areas and is reviewed quarterly by Internal Audit. The risk register is used to plan the pro-active counter-fraud work and highlight any emerging trends. The risk of fraud and associated controls are discussed monthly as part of the Council's Statutory Officers Group. The Council has a Counter-Fraud Policy and Strategy, together with a Fraud Response Plan, Whistle blowing Policy and HB Fraud Sanctions Policy, all of which have been approved by the Corporate Committee. The policies are all published on the website together with the free and confidential telephone and email reporting details. The Corporate Anti-Fraud Team and HB Fraud Investigation Team undertake pro-active and reactive investigations into fraud.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	The audit team have been pro-actively targeting housing tenancy fraud in 2013/14 as well as undertaking work to review potential fraud identified as part of the National Fraud Initiative data matching exercise. The Corporate Committee receives update reports on actions taken and the outcomes achieved on a quarterly basis. The Insurance Team also investigates

	claims against the Council for any potential fraud and has implemented a 'risk flag review' process which has been successful in repudiating and prosecuting a significant fraudulent claim on behalf of Homes for Haringey.
Are internal controls, including segregation of duties, in place and operating effectively?	Yes. An annual review of the Council's key financial systems, covering key risk areas and controls to manage the identified risks, is undertaken including walkthrough and compliance testing of controls on a sample basis. All key financial systems achieved a 'substantial' assurance rating from internal audit in 2013/14 and no high priority recommendations remain outstanding for this and all other areas.
If not, where are the risk areas and what mitigating actions have been taken?	N/A
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	Not that I have been informed of.
Are there any areas where there is a potential for misreporting?	Not that I have been informed of.
How does the Corporate Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	The audit plan includes areas which cover systems across the Council and this also helps to provide members with assurance that the council's key risk areas are being reviewed. Copies of all final reports are sent to me as the Chair of the corporate committee and copies also go to each Cabinet member so we have the information and can decide whether any further action needs to be taken by members or officers.
What arrangements are in place to report fraud issues and risks to the Corporate Committee?	The Corporate committee's responsibilities cover audit and fraud and part of this includes reviewing and approving the Council's policies on Anti-Fraud, whistle blowing, and risk management. As the Chair of the Corporate Committee I receive details of compliance with the corporate risk management policy from the Head of Audit and we review the risk registers every six months to make sure that key risks are being managed. The policies which the Corporate committee review are all on the Council's website.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	I have seen a number of press releases on successful prosecutions, especially housing benefit prosecutions where fraudsters have received custodial sentences, and internal audit also put articles in the staff newsletters, which are published on the staff intranet.
How do you encourage staff to report their concerns	The audit team have arranged for letters

about fraud? Have any significant issues been reported?	and emails to go to all staff and members about how the Council expects everyone to behave and how to report fraud. Internal Audit report on a quarterly basis to the Corporate Committee and their report includes details of the work done by the fraud teams – this report includes details of any whistle blowing reports.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	Not that I have been informed of.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2013?	All the reports from the Head of Audit to the Corporate Committee have details of the investigation work completed by each of the audit teams. The Committee gets these reports on a quarterly basis and the reports cover all investigations which include cases of actual fraud and whistleblowing reports which have been received. The quarterly audit report has details of staff suspended and disciplinary actions taken and members have the chance to review and question managements actions.

Law and regulation

Auditor Question	**Response**
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The internal audit programme of work reviews compliance with local and statutory regulations and covers the key risks facing the Council. Advice and guidance is provided to officers across the Council by Legal Services and Corporate Procurement departments on specific issues. Directors complete an annual assessment of governance processes in their directorates including compliance with relevant laws and regulations. No significant issues of non-compliance have been identified.
How does management gain assurance that all relevant laws and regulations have been complied with?	Internal audits cover compliance with the Council's regulations and any statutory processes within each service and any areas where managers don't comply with these are highlighted and recommendations made.
How is the Corporate Committee provided with assurance that all relevant laws and regulations have been complied with?	The Head of Audit sends summary reports out to members on a monthly basis so we can take any action or ask the Head of Audit for any further work we think should be done. At the Corporate Committee, we receive details of all recommendations which haven't been implemented and we monitor these every quarter. We have asked Directors to attend meetings if members think that not enough action is being taken to implement recommendations. Members are satisfied that audit's recommendations are being addressed, and no high priority recommendations remain outstanding, but we have asked for follow up audit work to be done quickly in some cases to make sure that high risk areas are being dealt with appropriately.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2013?	No significant areas of non-compliance have been highlighted.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	All claims made against the council's insurance policies are managed by the in-house insurance team. The team use external claims handlers to assist with complex and injury related claims, all other claims are dealt with in-house. The Council has accepted the first £500k risk for each and every claim made against it and uses

	its internal insurance fund to manage the claims. Directors complete an annual assessment of governance processes in their directorates including any litigation and claims issues.
Is there any actual or potential litigation or claims that would affect the financial statements?	No
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	No

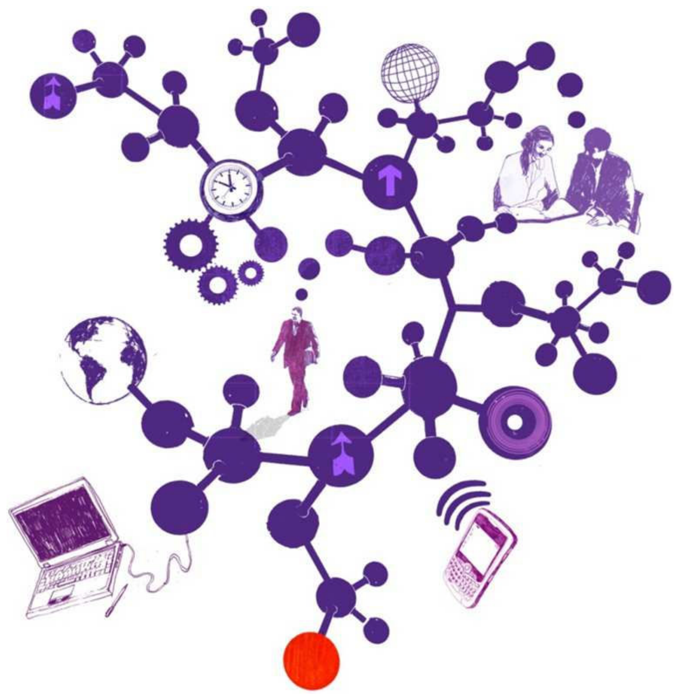
This page is intentionally left blank

Grant Thornton

The Audit Plan for London Borough of Haringey

Year ended 31 March 2014

March 2014



Paul Dossett
Partner
T +44 (0)207 728 3180
E paul.dossett@uk.gt.com

Paul Jacklin
Manager
T +44 (0)207 728 3263
E paul.j.jacklin@uk.gt.com

Richard Bennett
Audit Executive
T +44 (0)207 728 3241
E richard.s.bennett@uk.gt.com

Contents

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Regeneration of Tottenham

- A Plan for Tottenham sets out the Council's strategy to create high quality public spaces and to provide more flexible workspaces to encourage business and entrepreneurship that will transform Tottenham.
- The Council will need to work closely with public and community sector partners utilising resources flexibly to manage support and monitor the regeneration of Tottenham.

2. Financial Performance Pressures

- The Council continues to face financial pressures in the forthcoming years. The Council are anticipating generating a surplus for 2013/14 and are due to set a balanced budget for 2014/15.
- Further savings of approximately £54m will need to be delivered between 2015 and 2017 to balance the Council's budget.

3. Restructure of Senior Management Arrangements

- In order to meet its significant operational and financial challenges, the Council are undertaking a restructure of senior management positions. This could potentially result in loss of corporate knowledge and increased redundancy payments.

Our response

1. Regeneration of Tottenham

- As the scheme progresses we will review the Council's proposed accounting treatments such as accounting for grants and capital expenditure.
- We will review the impact of the regeneration plans on the Council's financial plans as part of our Value for Money conclusion. This will include consideration of the management of financial risks within the Council's Medium Term Financial Plan (MTFP).
- We will utilise specialist support from within Grant Thornton (e.g. growth accelerator team) to help support the Council in achieving its strategy.

2. Financial Performance Pressures

- We will continue to monitor the Council's financial performance through discussions with officers and review of Council papers. This review will inform our accounts opinion work and also form part of our work on the VFM conclusion
- As part of our work on Financial Resilience we will review the strength of the Council's arrangements in relation to financial planning and governance

3. Restructure of Senior Management Arrangements

- We will continue to discuss the progress of the restructuring programme to understand the impact this is having on the day to day operations of the Council.
- We will review disclosures and check the provision calculations within the financial statements

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

4. The Better Care Fund

- The Better Care Fund will be introduced in 2015/16. This is a single pooled budget for health and social care services to work more closely together in local areas providing integrated solutions for the community. The Council along with Haringey Clinical Commissioning Group (CCG) will be responsible for delivering the Better Care Fund Plan for the area
- The Health and Wellbeing Board are required to approve the Better Care Fund Plan. The draft plan has been signed off by cabinet and built into the Council's MTFP. The final plan should be submitted to NHS England by 4 April 2014.

5. Welfare Reform Act

- The Welfare Reforms are considered to be the biggest overhaul of the benefits system since the 1940s. The aim of the reforms is to simplify the benefits system in order to improve incentives to work. The Council was an early implementer of the benefits cap.
- Alongside Council Tax Benefit changes councils have to arrange for the delivery of a new local welfare payments system which replaces the Social Fund.

Our response

4. The Better Care Fund

- We will continue to discuss with the Council how it is proceeding with the development of its joint plans and monitor proposed timelines for implementation of the new arrangements in time for the 2014/15 financial year
- We will review the impact of the funding on the MTFP and ensure that proper consideration has been taken when identifying the cost of implementing the Plan

5. Welfare Reform Act

- We will review the current impact of these reforms with the Council as part of our financial resilience work to ensure that there are adequate arrangements in place to manage these changes in both the short, medium and long term
- Our work will also include reviewing the impact and budgeting of the localisation of Council Tax Benefits
- We will review the Council's provisions for bad debt for both HRA rents and Council Tax as part of our final accounts testing
- We will review the planned financial risks relating to the changes in welfare within the Council's MTFP as part of our VfM work

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1.Financial reporting
- Changes to the CIPFA Code of Practice
- Clarification of Code requirements for Property Plant and Equipment (PPE) valuations
- Changes to NDR accounting and provisions for business rate appeals
- Transfer of assets to Academies

2. Legislation
- Local Government Finance settlement
- Welfare reform Act 2012

3. Corporate governance
- Annual Governance Statement (AGS)
- Explanatory foreword

4. Pensions
The Code requires a number of changes in the accounting for the Local Government pension Scheme (LGPS). These are most notably in regards to:
- Changes in Accounting policy
- A reallocation of amounts charged in the comprehensive income and expenditure statement (CIES)
- more detailed disclosures

5. Other requirements
- The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion
- The Council completes grant claims and returns on which audit certification is required

Our response

1. Financial reporting

We will ensure that
- the Council complies with the requirements of the CIPFA Code of Practice and the changes in requirements for valuation of PPE are correctly applied
- the Council's approach to accounting for business rate appeals, ensuring that any provisions made are reasonable and estimates and judgements are supportable
- schools are accounted for correctly and in line with the latest guidance

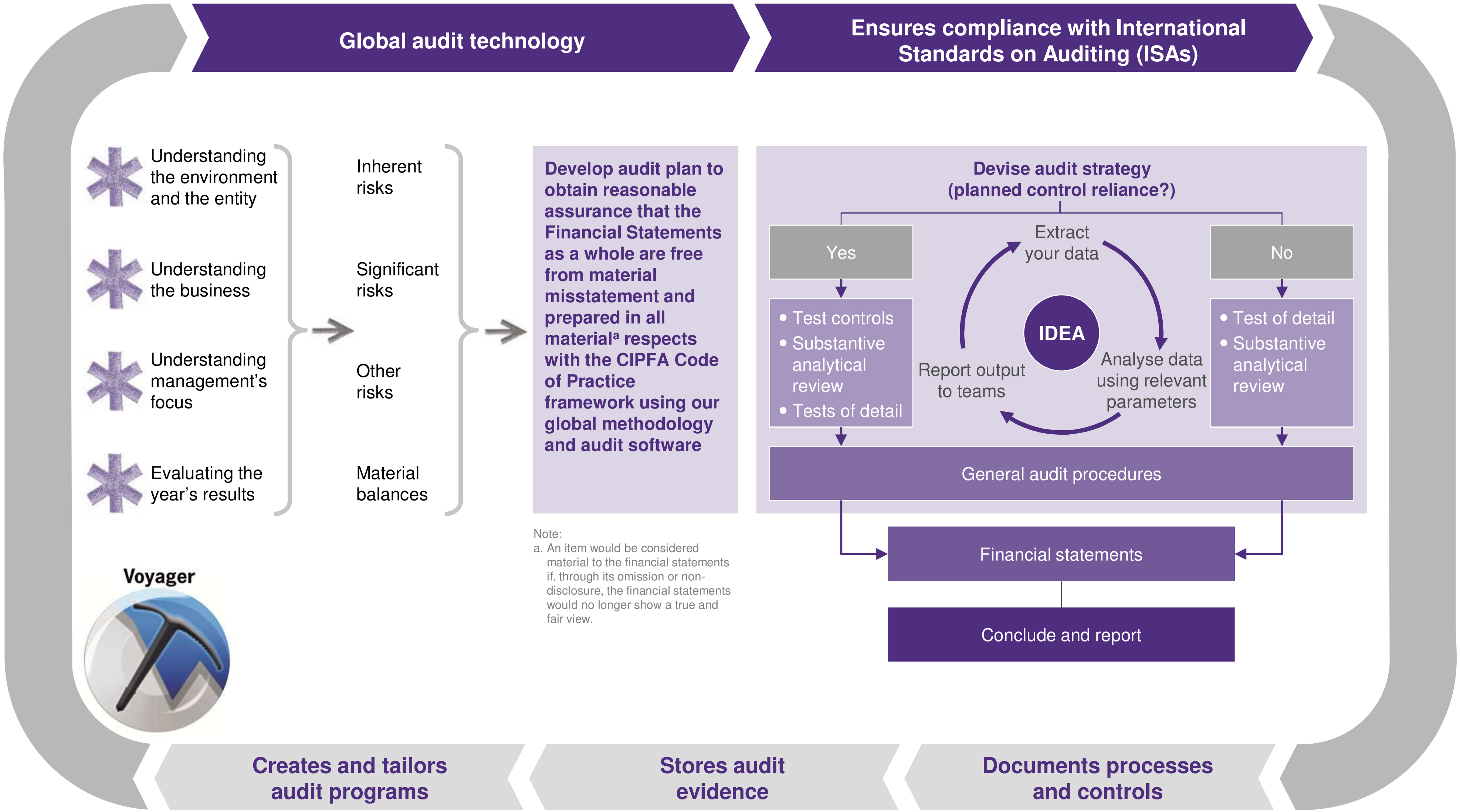
2. Legislation
- We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate

3. Corporate governance
- We will review the arrangements the Council has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge

4. Pensions
- We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management

5. Other requirements
- We will carry out work on the WGA pack in accordance with requirements
- We will certify grant claims and returns in accordance with Audit Commission requirements

Our audit approach



Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	**Work planned:** • Review and testing of revenue recognition policies • Testing of material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	**Work completed to date:** • Review of journal controls and early discussion of accounting estimates, judgments and decisions made by management **Further work planned:** • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	• We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our understanding. No issues were identified as a result of this work.	• We will review the reconciliation between the subsidiary system and the general ledger • We will complete attribute testing on a sample of invoices and goods receipt notes and other confirmations to ensure that transactions have been recognised • We will undertake cut-off testing to determine whether expenses are recorded in the correct period
Employee remuneration	Employee remuneration accrual understated	• We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our understanding. No issues were identified as a result of this work.	• We will review the reconciliation between the payroll system and the general ledger • We will complete monthly trend analysis of payments recognised • We will agree year end-payroll creditors to the payroll system and HMRC returns • We will complete sample testing on employees that commenced working for the Council to verify that transactions for all appropriate entitlement periods have been recognised
Welfare Expenditure	Welfare benefit expenditure improperly computed	• We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our understanding. No issues were identified as a result of this work	• We will review the reconciliation between the subsidiary system and the general ledger • We will complete the initial DWP certification testing of Housing benefits, including analytical review and verification of benefits awarded on a sample basis. • We will substantively test Council Tax Support payments

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Housing Rent Revenue Account	Revenue transactions not recorded	• We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our understanding. No issues were identified as a result of this work	• We will perform detailed analytical review procedures in order to gain assurance over the completeness of rental income • We will perform attribute testing, selecting a sample from the properties listing to verify the completeness of rental income

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Alexandra Park and Palace Trust	Yes	Analytical	We have not identified any specific risk in relation to the transaction cycles. We have been liaising with the Council to ensure that the audit report of the Alexandra Park and Palace Trust is signed off in a timely manner to prevent any delay to the group audit.	We have contacted the auditors of the Alexandra Park and Palace Trust to obtain their view on current risks. We will consider these as part of our audit planning. We will review the financial statements and the findings from the audit of the Alexandra Park and Palace Trust.. We will check that these financial statements have been correctly consolidated .
Homes for Haringey	Yes	Targeted	We have not identified any specific risk in relation to the transaction cycles. We have been liaising with the Council to ensure that the audit report of the Homes for Haringey is signed off in a timely manner to prevent any delay to the group audit.	We have contacted the auditors of the Homes for Haringey to obtain their view on current risks. We will consider these as part of our audit planning. We will carry out a review of the financial statements and the findings from the audit of the Homes for Haringey. We will check that these financial statements have been correctly consolidated .

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment against a number of key risk indicators to identify areas of risk to the VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Update our understanding of the Council's arrangements is respect of financial performance, financial governance, strategic financial planning and financial control and report any weaknesses identified to the Council
- Follow up recommendations from the 2012/13 financial resilience report
- Consider any reports issued by regulators to ensure that potential impacts are being suitably managed by the Council.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

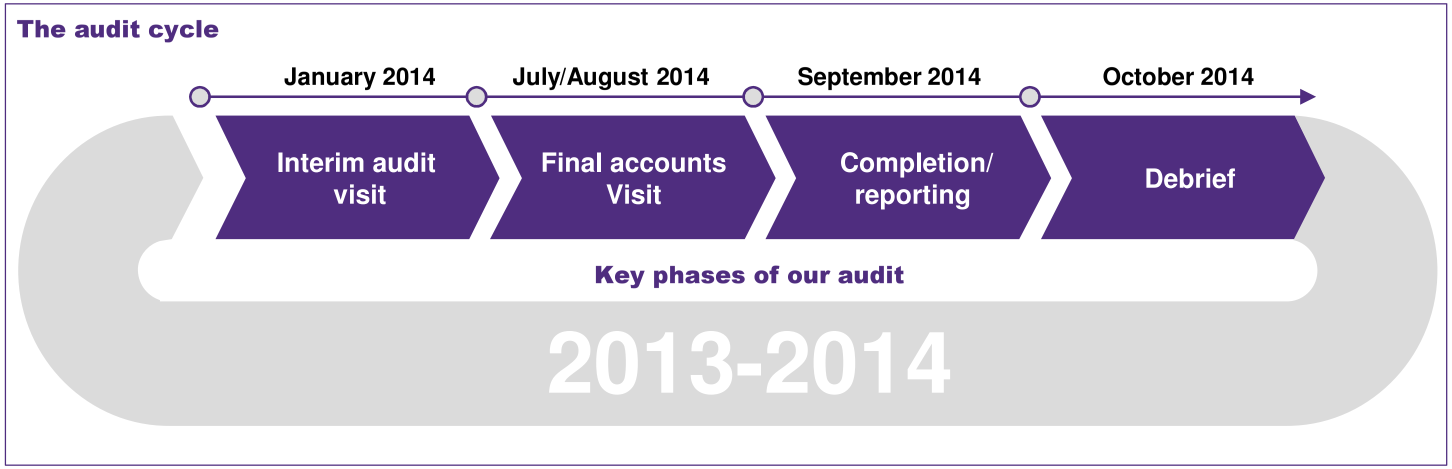
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	We have reviewed internal audit's overall arrangements for the 2013/14 financial year to provide assurance over the independence of the internal audit function including the Head of Internal Audit Opinion presented in the Annual Governance Statement.	Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council. We will further review internal audit's reports on the Council's key financial systems and factor these findings into our audit approach. Where necessary, any weaknesses identified will be reported in our Audit Findings Report.
Walkthrough testing	We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach.
Review of information technology controls	Our information systems specialist are currently undertaking a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also perform a follow up of the issues that were raised last year.	We will report our findings on completion of the work .

Results of interim audit work (continued)

	Work performed	Conclusion
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	No significant issues were identified in the review of journal policies and procedures. We will gain assurance over the appropriateness of the journal transactions processed by reviewing individual entries which have been processed in the production of the financial statements as well as those used throughout the year.
Early substantive testing	We have undertaken early substantive testing on the following for the first nine months of the year: • Non grant revenue • Employee remuneration transactions This has provided assurance over the occurrence and accuracy of transactions posted to the general ledger.	No significant issues were identified from our early substantive testing. The transactions have been recognised in accordance with our expectations and posted to the appropriate ledger codes. We will complete testing on non grant revenues and payroll transactions for months 10 to 12.

Key dates



Date	Activity
December / January 2014	Planning
January 2014	Interim site visit
March 2014	Presentation of audit plan to Corporate Committee
July / August 2014	Year end fieldwork
September 2014	Audit findings clearance meeting with the Interim Chief Operating Officer and the Assistant Director of Finance
September 2014	Report audit findings to those charged with governance (Corporate Committee)
September 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	272,700
Grant certification	45,600
Total fees (excluding VAT)	**318,300**

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

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

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Grant Thornton

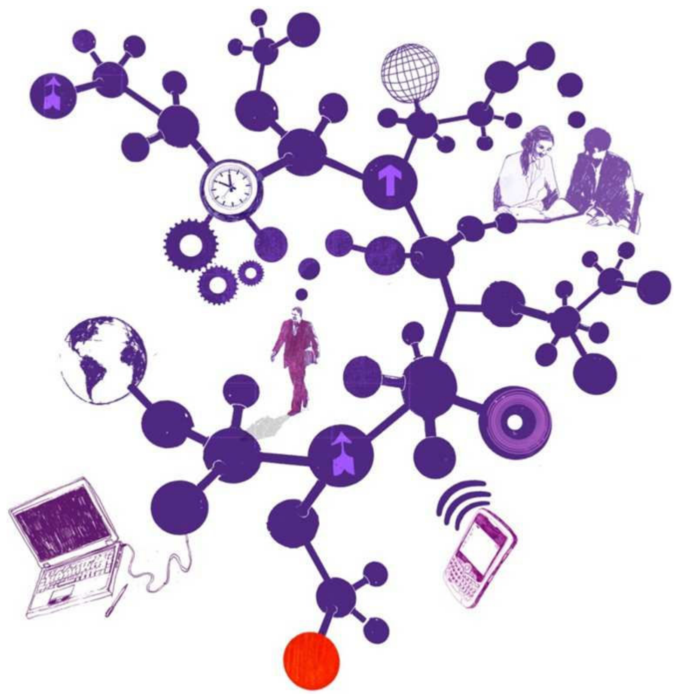
grant-thornton.co.uk

Grant Thornton

Corporate Committee Update for London Borough of Haringey

Year ended 31 March 2014

28 February 2014



Paul Dossett
Partner
T 020 7728 3180
E paul.dossett@uk.gt.com

Paul Jacklin
Manager
T 020 7728 3263
E paul.j.jackin@uk.gt.com

Richard Bennett
Executive
T 020 7728 3241
E richard.s.bennett@uk.gt.com

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', 'Towards a tipping point?', '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', Reaping the benefits? First impressions of the impact of welfare reform

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.

Paul Dossett (Engagement Lead) T 020 7728 3180 M 07919025198 paul.dossett@uk.gt.com
Paul Jacklin (Audit Manager) T 020 7728 3263 M 0788 0456186 paul.j.jacklin@uk.gt.com

Progress at 28 February 2014

Work	Comments
2012/13 Audit Certificate	We are pleased to report that since the last Corporate Committee we have now issued the audit certificate and closed the 2012/13 audit.
2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.	The Accounts Audit Plan is a separate item on the agenda
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion.	Fieldwork has been completed, the results of which are included within the Audit Plan. Early substantive testing is in progress and we will report the results of this work in our Audit Findings Report which will be presented at the Corporate Committee in September 2014.
2013-14 final accounts audit Including: • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion.	We plan to communicate our findings to the September Corporate Committee

Councils must continue to adapt to meet the needs of local people

Local government guidance

Audit Commission research - Tough Times 2013

The Audit Commission's latest research, http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, with uncertainty ahead, the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

The Audit Commission Chairman, Jeremy Newman said that with continuing financial challenges 'Councils must share what they have learnt from making savings and keep looking for new ways to deliver public services that rely less on funding from central government'.

The Audit Commission's research found that:

- the three strategies most widely adopted by councils have been reducing staff numbers, securing service delivery efficiencies and reducing or restructuring the senior management team;
- three in ten councils exhibited some form of financial stress in 2012/13 – exhibited by a mix of difficulties in delivering budgets and taking unplanned actions to keep finances on track;
- auditors expressed concerns about the medium term prospects of one third of councils (36 per cent)

Councils choosing their auditors one step closer

Local government guidance

Local Audit and Accountability Act

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

Key points:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- Local Authority's will take responsibilities for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- Local Authority's will be required to establish an auditor panel which must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

Joint Health and Social Care Plans to be in place by 4th April

Local government guidance

Better Care Fund

In the June 2013 Spending Round the Government announced the prospective implementation of the Better Care Fund (formerly the integration transformation fund). The key aim is to ensure a transformation in integrated health and social care through local single pooled budget arrangements. Pooled budget arrangements are formally underpinned by Section 75 of the NHS Act 2006.

Key issues

- £3.8 billion for funding will be available from 2015/16, largely through a top slice of existing Clinical Commissioning Group (CCG) budgets;
- Local Authorities with Adult Social Services, CCGs and NHS Trusts will need to collaborate through a single pooled budget arrangement to support the delivery of health and social care services in their designated local areas;
- finalised joint health and social care plans must be in place setting out how pooled budgets will be spent – draft plans must be formally signed off by each statutory Health and Well Being Board and submitted to NHS England area teams by 14 February, with a 4 April 2014 deadline for submission of finalised plans

79% of Councils anticipate Tipping Point soon

Grant Thornton

2016 tipping point? Challenging the current

This report http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf is the third in an annual series which assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future.

Local authorities have so far met the challenges of public sector budget reductions. However, some authorities are predicting reaching tipping point, when the pressure becomes acute and financial failure is a real risk. Based on our review of forty per cent of the sector, this report shows that seventy nine per cent of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.

Our report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential ‘tipping point scenarios’ such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

Our report also suggest some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. This includes a relentless focus on generating additional sources of revenue income, and improving efficiency through shared services, strategic partnerships and wider re-organisation.

Alternative Delivery Models – are you making the most of them?

Grant Thornton

Alternative delivery models in local government

This report: http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/ discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

Welfare reforms – what you think of it so far?

Grant Thornton

Reaping the benefits: first impressions of the impact of welfare reform.

The potential scope of this topic is broad, so our report, http://www.grant-thornton.co.uk/en/Services/Public-Sector/ focuses on the financial and managerial aspects of welfare reform. This involves:

- Understanding the challenges currently facing local government and housing associations in regard to welfare reform and what organisations have been doing to meet this challenge in terms of strategy, projects and new processes.
- Reporting on the early indications of effectiveness following the implementation of these measures and the impact of reform.
- Providing early insight into challenges facing these organisations in the near future.

We have pulled together information from a variety of sources, including our regular conversations across the local government and housing sectors and surveying local authorities and housing associations in England.

We found that:

- In general, organisations have been very active in engaging with stakeholders and putting in place appropriate governance arrangements and systems to implement specific reforms. A minority of organisations did not fully exploit all the options open to them in preparing for reform.
- So far, the indication is that the impact of reform experienced by local authorities and partners has been managed effectively. This may be because the full impact has not yet been felt. Some worrying signs are emerging, including rising rental arrears, homelessness and reliance on food banks, which may be linked to the reforms.
- Looking ahead, further reforms, such as the implementation of universal credit and the move to direct payments present significant uncertainties and challenges over the next few years.

Revaluing your assets – clarification of accounting guidance

Accounting and audit issues

Property, plant and equipment valuations

The 2013/14 Code has clarified the requirements for valuing property, plant and equipment and now states explicitly that revaluations must 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.' This means that a local authority will need to satisfy itself that the value of assets in its balance sheet is not materially different from the amount that would be given by a full valuation carried out on 31 March 2014. This is likely to be a complex analysis which might include consideration of:

- the condition of the authority's property portfolio at 31 March 2014
- the results of recent revaluations and what this might mean for the valuation of property that has not been recently valued
- general information on market prices and building costs
- the consideration of materiality in its widest sense - whether an issue would influence the view of a reader of the accounts.

The Code also follows the wording in IAS 16 more closely in the requirements for valuing classes of assets:

- items within a class of property, plant and equipment are 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
- a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

There has been much debate on what is a short period and whether assets that have been defined as classes for valuation purposes should also be disclosed separately in the financial statements. These considerations are secondary to the requirement that the carrying value does not differ materially from the fair value. However, we would expect auditors to report to those charged with governance where, for a material asset class:

- all assets within the class are not all valued in the same year
- the class of asset is not disclosed separately in the property, plant and equipment note.

Estimating the impact of business rate appeals

Accounting and audit issues

Business rate appeals provisions

Local authorities are liable for successful appeals against business rates. They should, therefore, recognise a provision for their best estimate of the amount that businesses have been overcharged up to 31 March 2014.

However, there are practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging:

- the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA
- some businesses may have been overcharged but not yet made an appeal.

We would expect local authorities:

- to work with the VOA to make sure that they have access to the information they need
- where appeals have been made, to determine a methodology for estimating a provision and to apply this methodology consistently
- where appeals have not been made:
  - to consider the extent to which a reliable estimate can be made (for example, in relation to major businesses)
  - to recognise a provision where a reliable estimate can be made
  - to disclose a contingent liability where a reliable estimate cannot be made
  - to provide a rationale to support their judgement that a reliable estimate cannot be made
- to revisit the estimate with the latest information available immediately before the audit opinion is issued.

Reporting the costs of public health

Accounting and audit issues
Changes to SeRCOP – new public health line SeRCOP for 2013/14 introduces a new cost of service line for 'Public health'. This has been introduced to reflect new responsibilities placed upon local authorities following restructuring in the NHS. We expect this new service line to be presented on the face of the CIES within cost of services. If there were material amounts relating to this service in 2013/14, we would expect comparative figures to be restated.

Accounting for pensions

Accounting and audit issues

Accounting for and financing the local government pension scheme costs

Accounting issues

The 2013/14 Code follows amendments to IAS 19 and changes the accounting requirements for defined benefit pension liabilities such as those arising from the local government pension scheme (LGPS). This is a change in accounting policy and will apply retrospectively. The main changes we expect to see are:

- a reallocation of amounts charged in the comprehensive income and expenditure statement (CIES)
- more detailed disclosures.

We do not expect changes to balance sheet items (the net pension liability and pension reserve balance). This means that whilst we would expect the CIES to be restated, a third balance sheet is not required. Actuaries should be providing local authorities with the information they need to prepare the financial statements, including restated comparatives.

Financing issues

The amount to be charged to the general fund in a financial year is the amount that is payable for that financial year as set out in the actuary's rates and adjustments certificate. Some local authorities are considering paying pension fund contributions early in exchange for a discount but not charging the general fund until later.

Local authorities must be satisfied that the amounts charged to the general fund in a financial year are the amounts payable for that year. Where local authorities are considering making early payments, we would expect them to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund. We would expect this to include consideration of:

- the actuary's opinion on the amounts that are payable by the local authority into the pension fund
- the agreement between the actuary and the local authority as to when these payments are to be made
- the wording in the rates and adjustments certificate setting out when amounts are payable for each financial year.

For example, if a local authority agrees to make a payment to the pension fund in a single year and proposes to charge this amount to the general fund over a three-year period, we would expect the rates and adjustments certificate to show, unambiguously, that the amount payable is spread over the three years.

Changes to the public services pension scheme

Accounting and audit issues

Changes to the Local Government Pension Scheme

The Public Service Pensions Bill received Royal Assent in April 2013, becoming the Public Service Pensions Act 2013 ('the Act'). The Act makes provision for new public service pension schemes to be established in England, Wales & Scotland. Consequent regulations have been laid to introduce changes to the LGPS in England and Wales from 1st April 2014. (The regulations for the changes in Scotland have not yet been laid and will only impact from 1 April 2015).

These introduce a number of changes including:

- a change from a final salary scheme to a career average scheme
- introduction of a 50/50 option whereby members can choose to reduce their contributions by 50% to receive 50% less benefit
- calculation of contributions based on actual salary which could lead to some staff with irregular patterns of working moving between contribution rate bandings on a regular basis
- changes in employee contribution rates and bandings
- transitional protection for people retiring within 10 years of 1 April 2014 (further regulations are still awaited.

The above changes have implications for all employers involved in the LGPS introducing required changes to their payroll systems to ensure pension contributions are calculated correctly. This has consequent implications for administering authorities to communicate with employers and consider how they will obtain assurance over the accuracy and completeness of contributions going forwards since the calculations are more complex going forwards and less predictable. In addition changes are also required to pension administration/payment systems as well as much more detailed processes around maintaining individual pension accounts for all members to ensure the correct payment of future pensions.
The Act also requires changes to the governance arrangements although regulations for the LGPS have not yet been laid for these and the changes in governance arrangements are not expected to be implemented until 1 April 2015.

Grant Thornton

grant-thornton.co.uk

This page is intentionally left blank

Agenda Item 18

Haringey Council

Report for:	Corporate Committee	Item number	

Title:	Local Audit and Accountability Act 2014

Report authorised by :	Kevin Bartle – Assistant Director – Finance (CFO)

Lead Officer:	Neville Murton – Head of Finance (Budgets, Accounting and Systems) neville.murton@haringey.gov.uk 020 8489 3176

Ward(s) affected: All	Report for Key/Non Key Decision: Non-key

1 Describe the issue under consideration

1.1 This report forms a briefing note for members following the enactment of the Local Audit and Accountability Act 2014 (The Act). The Act received Royal Assent on the 30 January 2014.

2 Cabinet Member Introduction

2.1 Not applicable

3 Recommendations

3.1 Corporate Committee members are asked to note this report.

4 Executive Summary

4.1 The Local Audit and Accountability Act 2014 (The Act) introduces a number of measures all aimed at improving the accountability and democracy of councils; the provisions are summarised below with the main issues being considered in more detail within this report.

4.1.1 On 13 August 2010 the government announced its intention to abolish the Audit Commission and put in place new decentralised arrangements for the audit of local public bodies. The Act delivers the government’s commitment to close the Audit Commission and transfer its remaining functions.

4.1.2 The Act also protects electors rights to inspect Local Authorities’ accounts and allows them to say if they think that there are matters that the auditor should examine.

Haringey Council

4.1.3 Proposals are also included to increase local accountability by ensuring compliance with existing rules to protect the independent free press from unfair competition from Local Authority newspapers.

4.1.4 The Act also amends the Local Government Finance Act 1992 so that the principles underpinning the need for Local Authorities to undertake a binding referendum following 'excessive' council tax increases takes account of levy increases.

4.1.5 Measures introduced through earlier regulations regarding access to meeting and documents have also been extended through the Act to include Full Council meetings and other local government bodies. This includes the right for the public to film, blog and tweet at public meetings.

5 Abolition of the Audit Commission and other consequent considerations

5.1 It is expected that the Audit Commission will close on 31 March 2015; in place of the commission there will be a new framework for local public audit which will commence once the existing audit commission contracts with audit suppliers ends in 2016/17 (or potentially in 2019/20 if all the contracts are extended).

5.2 The framework thereafter allows for local bodies to appoint their own independent external auditors. Auditors are to be appointed before the 31 December of the year preceding the year of account and appointments can be made for more than a single year but a new appointment must be made at least every five years. For Haringey the appointment must be made by the Full Council and cannot be delegated, although the views of an authority's 'auditor panel' must be sought and taken into account.

5.3 The Act sets out the requirements for, and the duties of, an Auditor Panel. The Council will have to have an auditor panel although a decision on the precise arrangements can be considered at a later date; the provisions allow for panels being created by each authority or jointly by a number of authorities. The majority of members of an auditor panel must be independent and the chair of the auditor panel must also be independent (a definition of independence is included in Schedule 4 Para 2 sub section 2 of the Act) and is attached as Appendix 1.

5.4 The scope of audits will remain largely similar with guidance being developed by the Comptroller and Auditor General of the National Audit Office and auditors being required to have regard to such guidance.

5.5 The publication of Public Interest Reports will also continue with local bodies being required to publish both any public interest reports and their response. In addition the existing rights of electors to inspect and

Haringey Council

raise concerns on the accounts of public bodies with the external auditor are maintained.

5.6 As is currently the case auditors are required to be satisfied that the statement of accounts and accounting records comply with the relevant enactments; that proper practices have been observed in the compilation of the statement of accounts and that they present a true and fair view and that proper arrangements have been made to secure economy, efficiency and effectiveness (vfm) in the use of resources.

5.7 The current provisions regarding the right of electors to inspect the accounts and raise objections with the auditor that items of expenditure are unlawful or about which the auditor could make a public interest report are maintained. Auditors must decide whether to consider the objection and if so whether to make a public interest report or a declaration of unlawful expenditure. The auditor has discretion not to consider the objection if they consider it to be vexatious, frivolous, repeats a previous objection or where the cost of the auditor's investigation would be disproportionate to the amount to which the objection relates.

5.8 The role of the audit commission relating to authorities compliance with its best value duties passes to the Secretary of State to appoint a person to carry out such inspections.

5.9 Previously the regulations governing binding referenda require that, when considering whether an authority has sets a Council Tax at an excessive level (above a limit set by the government), the change in any levies and precepts are excluded. The Act now requires that levies are included (although precepts remain excluded as precepting authorities are subject to their own referendum legislation). In practice this means that the relevant basic amount for the purpose of considering whether a Council Tax increase is excessive is taken to mean the increase in an authority's Band D Council Tax level.

6 Comments of the Chief Financial Officer and Financial Implications

6.1 This report is for information and as such there are no direct financial implications arising from it; any consequent effects will be included in future reports.

7 Head of Legal Services comments

7.1 The Monitoring Officer has been consulted and has no additional comments to make.

8 Policy Implication

8.1 None.

Haringey Council

9 Use of Appendices

Appendix 1 – Local Audit and Accountability Act extract (Independence of Auditor Panels)

10 Local Government Act, 2000 (Section 97)

Local Audit and Accountability Act 2014

All the above papers are available for inspection through Neville Murton Head of Finance (Budgets, Accounting and Systems) ext. 3176.

Haringey Council

Appendix 1.

Constitution of an Auditor Panel – Independence.

(2) A member of a relevant authority's auditor panel, other than a health service body's auditor panel, is "independent" at any given time if—

(a) the panel member has not been a member or officer of the authority within the period of 5 years ending with that time,

(b) the panel member has not been an officer or employee of an entity connected with the authority within that period, and

(c) the panel member is not at that time a relative or close friend of a member or officer of the authority or an officer or employee of an entity connected with the authority.

This page is intentionally left blank

Agenda Item 19

Haringey Council

Report for:	Corporate Committee 20 March 2014	**Item number**	

Title:	Delegated Decisions /Significant Actions/ Urgent Actions

Report authorised by :	Assistant Director of Corporate Governance and Monitoring Officer

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. **Assistant Director of Corporate Governance comments 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

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 SOCIAL SERVICES

Significant decisions - Delegated Action – February 2014

♦ denotes background papers are Exempt.

No	Date approved by Director	Title	Decision
1.		NIL	
2.			
3.			
4.			

Delegated Action	
140210: CSO 8.02 / CSO10.01 / CSO 9.07 Care Place	Number

Submission authorised by: ______________________
Mun Thong Phung - Director of Adult Social Services

Date: __**3**^RD^ **March 2014**________

DIRECTOR OF ADULT SOCIAL SERVICES

Significant decisions - Delegated Action – January 2014

◆ denotes background papers are Exempt.

No	Date approved by Director	Title	Decision
1.	24.01.14	Delegated Authority: Framework-I	Approved
2.	24.01.14	Delegated Authority: Adult and Community Services – Learning Disability Partnership	Approved
3.	27.01.14	Delegated Authority: Adult and Community Services - Social Work Management	Approved
4.			

Delegated Action

	Number
02.01.14: CSO 10.02 Adult Social Care – Voluntary Sector: various contracts	

Submission authorised by: MTPhung
Mun Thong Phung - Director of Adult Social Services

Date: 5th February 2014

DIRECTOR OF (insert name of Directorate)

Significant decisions - Delegated Action January 2014

◆ denotes background papers are Exempt.

No	Date approved by Director	Title	Decision
1.	24.1.2014	**Restructuring affecting less than 50 staff: Youth Offending Service**	Approved
2.	24.1.2014	**Restructuring affecting less than 50 staff: Youth Offending Service**	Approved
3.	30.1.2014	**Restructuring affecting less than 50 staff: First Response**	Approved
4.	26.2.2014	**Restructuring affecting less than 50 staff: Woodside Children's Centre**	Approved

Delegated Action

Type			Number
10.01	Interim Early Years and Early Help Lead	£58000	1

Lisa Redfern
Director, Children's Service (Acting)

DIRECTOR OF (insert name of Directorate)

Significant decisions - Delegated Action

♦ denotes background papers are Exempt.

No	Date approved by Director	Title	Decision
1.	27th Jan 2014	Appointment of Air Quality Apprentice post for 2 to 3 years	Approved
2.	9th Jan 2014	Re-organisation of Parking Services – deletion of 5 posts currently held by agency staff and creation of 1 scale 5 revenues officer post.	Approved
3.			
4.			

Delegated Action

Type	Number

This page is intentionally left blank

Document is exempt

This page is intentionally left blank

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

Document is exempt

This page is intentionally left blank

Document is exempt

This page is intentionally left blank

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

Document is exempt

This page is intentionally left blank

Agenda Item 23

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

Document is exempt

This page is intentionally left blank